

Handbook Organisation and Management

A Practical Approach



Noordhoff Uitgevers

Jos Marcus & Nick van Dam

Fourth Edition

Handbook Organisation and Management

Dedicated to: Anjette, Jasper, Hugo and Yannick

HANDBOOK ORGANISATION AND MANAGEMENT

A PRACTICAL
APPROACH

Jos Marcus

Nick van Dam

Fourth Edition 2019

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Acknowledgements

This book offers a comprehensive introduction to the field of Organisation and Management, making it a suitable choice for many higher educational studies at both the Bachelor and Master levels. Furthermore, it is a useful handbook for professionals already working in organisations.

In addition to the topics traditionally associated with Organisation and Management, the current developments and international context of the discipline feature prominently. The discussion of these topics is not restricted to the realm of theory either; instead, it is illustrated through many practical examples, thus offering the reader an insight into the application of theory to practice and practice to theory.

What is new in this fully revised edition?

In recent years, there have been substantial developments in the field of Organisation and Management – developments in terms of technology, politics, and society – that have also had an effect on the approach towards, and the development of, organisations.

Among the strengths of this book have always been its relevance, practical orientation, and innovative character. It is with these strengths in mind that there have been many adjustments and modernisations to this new edition.

The structure of the book has remained the same. New added chapters feature in all three parts of the book, expanding and deepening its theoretical framework. There have also been adjustments to the existing chapters, aimed at expanding and deepening the theoretical basis. Considering these substantial adjustments to the theoretical basis, we felt compelled to change the book's title, as well. This Handbook of Organisation and Management now offers a truly practical approach, having naturally been supplemented with many practical examples.

In addition to the modernisation of the theory, numerous practice-oriented texts and examples have been updated, thereby maintaining and safeguarding the book's high degree of relevance and practical orientation. All practice-oriented texts and examples in this edition have been rebranded 'O&M IN PRACTICE'. Chapters open with the familiar 'Start-up' texts: practical examples of young and innovative Dutch and international organisations.

The interviews at the beginning of each part of the book have also been replaced with new ones, and now feature the following managers of three well-known international enterprises:

Part A: Raymond Cloosterman, founder of Rituals;

Part B: Peter Wennink, CEO for ASML and Harry de Vos, CHRO for ASML;

Part C: Henk Jan Beltman, Chief Chocolate Officer for Tony's Chocolonely.

The following is a list of the chapters that are new to the book's component parts:

Part A: Environments and Organisations

Chapter 3: Digital Transformation

Chapter 4: Internationalisation

Chapter 5: Corporate Social Responsibility, Corporate Governance, and Ethics

Part B: People and Organisations

Chapter 6: The Future of Work

Chapter 7: Human Resource Management

Part C: Structure and Organisations

Chapter 12: Culture

Additionally, some chapters from the previous edition have been merged and/or strongly revised in terms of their contents:

- Former Chapters 2 'Strategic Management' and 3 'Collaboration' have been merged into a new Chapter 2, entitled 'Strategic Management'.
- Former Chapters 6 'Management' and 7 'Decision-making' have been merged into a new Chapter 9, entitled 'Leadership and Management'
- Former Chapter 10 has been updated and substantially expanded, and has become Chapter 13, 'Organisational Change and Development'.

A final note is that the book's interior has been significantly renewed, thus reinforcing and updating its contemporary nature, and making it an eminently useful and challenging handbook.

Website

In recent years, there has been a noticeably declining trend with respect to the use of the workbook by students. We have therefore decided to discontinue the workbook. In addition to the aforementioned trend, we are seeing students making increasing use of the website companion to the book. We have therefore decided to integrate the workbook with the existing website. For example, the website now offers up-to-date cases for each chapter of the book. Integrating these cases with the website offers the advantage of enabling us to continue to update and supplement these cases over the course of this new edition.



Also, the QR-codes are no longer documented in this book, but on the website. The website-icon in the margins refers to these QR-codes.

With regards to the website, the exam database of test questions for students has been aligned with the expansion of the theoretical framework and the new chapter layout. In addition to the exam database, the concept trainer and PowerPoint presentations have also been updated.

Teachers can use 'Toets-op-maat' to easily create their own exams, supplemented with their own questions. These exams can be compiled using test questions unavailable to students.

Acknowledgements

For this new edition, we resumed the distribution of questionnaires among our users (teachers). We want to thank all participants, and want to assure them that the information thus obtained was naturally put to good use in developing this revised edition. Our special thanks to the following people: Judith Grimbergen for processing the many practical example text and contributing to the theoretical topics; Narda Vermeulen for writing the texts on agile and horizontal organisation; Jacqueline Brassey for contributing to Chapter 13; Edwin Huijsman, Annelie Uittenbogaard and Martin van der Sluis for their dedication to developing website materials. From publishing company Noordhoff, we want to thank our publisher Petra Prescher for her continued contributions, and to Ada Bolhuis for editing this fine handbook.

Jos Marcus, Wormer

Nick van Dam, Hilversum and Madrid

About the authors



Jos Marcus

Jos Marcus studied Economic Sciences at the Vrije Leergangen Vrije Universiteit (Bachelor's) and Business Administration at the Vrije Universiteit (Master's). He currently works at the Inholland University of Applied Sciences, Diemen / Amsterdam. Part of his work over the past years has been to establish and develop a new fulltime study programme entitled 'Business Studies'. This new programme, which became available in September of 2014, can be studied at five of Inholland's branches. Business Studies is a four-year programme whose first two years comprise a common generalist basis, in which all entrepreneurial ownership positions are addressed. Then, over the last two years, students work towards a specialisation in either Marketing, Enterprising, Policy and Management, Human Resource Management, Banking & Insurance, and Logistics. The programme was developed from the professional field's demand for a future workforce with a broad basic education as well as certain specialist knowledge.



Nick van Dam

Nick van Dam is driven by a singular passion for human development. He is a consultant, author, speaker, teacher, and researcher in the field of (corporate) learning & development, sustainable organisation, and leadership development. He is a professor at the Nyenrode Business Universiteit and the University of Pennsylvania, Philadelphia. In addition, he is a member of the Executive Board of and the Chief Learning Officer for IE University, Madrid. He is a former partner, Global Chief Learning Officer and Senior Advisor for McKinsey & Company and was a partner, advisor and Global Chief Learning Officer for Deloitte.

He has written articles and has been cited by publications including *The Financial Times*, *The Wall Street Journal*, *Harvard Business Review*, *Forbes Fortune*, *Business Week*, *Information Week*, *Indian Times*, *TD Magazine* and *CLO Magazine*. He is also the author and co-author of over 25 books and numerous articles.

In addition to his tasks with regard to development, he teaches in the disciplines of Management & Organisation, Marketing, and Business Administration. He also supervises graduation assignments and internships. He has held the chair of the central curriculum committee of the Inholland Finance study programmes since academic year 2017/2018. In addition, he is a partner in 'Accompany, Innovative Learning Solutions': an enterprise specialising in the development of educational resources. He has been the financial director of the 'Elearning for Kids' foundation since 1 February 2014.

In 2017, he published *Ga doen wat je écht belangrijk vindt! Positieve psychologie in de Praktijk*; in 2018, *Handboek Leren & Ontwikkelen in Organisaties*. In 2012, he received the 'Lifetime Learning Leadership Award' from the MASIE Center, a thinktank focussing on corporate learning, and in 2013 the 'European Leonardo Corporate Learning Award' for his efforts in the fields of corporate learning and leadership development. He is the founder and chief executive officer for the 'e-learning for kids' foundation (www.e-learningforkids.org), which has helped over 25 million children obtain free digital education.

Nick studied Economic Sciences at the Vrije Universiteit, Organisational Sociology at the University of Amsterdam, and obtained his doctorate for his thesis on Human Capital Development at Nyenrode Business Universiteit. In addition, he took part in various executive development programmes at institutions like Harvard Business School, Wharton, and IMD. Nick lived, worked, and studied in the United States from 1995 until the end of 2006, and currently lives in Madrid.

Together with Jacqueline Brassey, he has developed assessments which can help people become the best possible version of themselves: www.reachingyourpotential.org.

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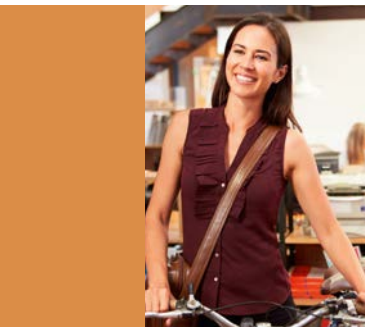
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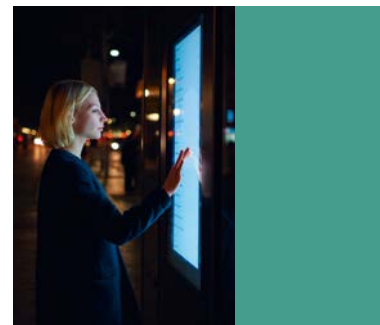


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Introduction

Part of everyday life

Throughout their lives, everyone comes into contact with organisations and organising.

In the home, family life contains many instances where tasks need to be organised – whether it be parents arranging activities for their children, or simply planning the shopping for the week ahead. Although running a home and a formal organisation are not the same, the two have much in common.

Children often come into contact with organisations outside the home. From quite a young age, they may join a swimming club, go to a music school to learn piano, learn to dance at a ballet school, or join the local scout group. These are all organisations. Formally speaking, an organisation exists when two or more people choose to work together to achieve a certain goal or goals. In fact, being part of an organisation is a theme that is recurrent throughout one's entire life. Put another way, organisations are such a normal part of daily life, people hardly notice that they are so ubiquitous. Everyone interacts with, talks about, and experiences both their positive and negative aspects daily.

Organisations, companies and enterprises

A recurrent theme in this book is the functioning of organisations – but what exactly is an organisation?

An organisation can be seen as:

Any group of people cooperating to achieve a common purpose.

Following this definition, the three elements of an organisation can be seen as:

- 1 people;
- 2 cooperation;
- 3 common purpose.

The reason why people work together in an organisation is that some tasks cannot be completed by just one person. Organisations exist because society has a demand for the products or services they provide. An organisation, therefore, is part of human society and environment.

Within this book, the word 'organisation' is sometimes used to refer to a company or an enterprise. In this context, a company is often an organisation that produces goods or services, and an enterprise is a company that aims to make a profit. From these descriptions, it is evident that enterprises are a category of company, which in turn is a category of organisation. Figure 1 illustrates these categorisations.

Organisation

Society
Environment

FIGURE THE RELATION BETWEEN ORGANISATIONS, COMPANIES AND ENTERPRISES



Management

Organising involves combining and structuring tasks, people, and resources in such a way that the goals of an organisation are reached.

This is often an activity allocated to several people within an organisation, and it is common for the task of organising to be a part of management's job. With this in mind, the second term used in the title of this book takes the stage: management. Management means:

Management

The leading and steering of an organisation

Managerial responsibility is given to key people, normally being the owner(s) or most senior person(s) in an organisation, plus anyone else delegated to take the role.

Their main task is to direct the entire company. Combining the principles of 'organisation' and 'management' leads to the title of this book.

[A Handbook of Organisation and Management, a practical approach, explores the leading and steering of various kinds of human cooperation towards a common purpose.](#)



THE EVOLUTION OF ORGANISATION AND MANAGEMENT

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After studying this chapter:

- you will have become familiar with several important schools of thought and personalities from the history of organisational behaviour;
- you will have gained an insight into contemporary developments in the field of organisation behaviour;
- you will be able to relate schools of thought to personalities and understand the significance of these relationships for the structuring of contemporary organisations;
- you will be able to better place subjects discussed in later chapters of the book in their proper context.

Polette aiming to be low-budget powerhouse on market for reading glasses

French entrepreneurs Pauline Cousseau and Pierre Wizman met in China, where they learned to make glasses. This was followed by the launch of their company 'Polette'. Since then, they have built up an organisation with a turnover in the tens of millions, a growing number of stores, and over 60 employees.

The founders taught themselves how to design glasses, establish a webstore, and deal with local manufacturers. Frames for glasses go for 3 to 5 Euros in China; lenses are between 3 and 20 Euros. Polette cut out the distributors and stores, and ignored the concept of licensing – which had previously been the standard in the world of spectacles. Polette is, in principle, fully in charge of their prices. Their glasses, officially available from 15 Euros but generally retailing for a couple of tenners each, are supplied without an intermediary, straight from a factory in China. The duo has since become the owners of a lens factory. Their philosophy is that lower prices mean people can afford more glasses; Polette is looking to become a 'Zara' for glasses.

Cousseau and Wizman: 'The challenges mainly take the form of cultural differences; many Chinese people will say yes to anything. But products are often different from what was expected in terms of colour or shape. In these cases, clarity is important, as is collaborating with reliable people. In 2011, when the company was founded, Polette was the first online shop for glasses in Europe. Investors are currently not yet welcomed; the company strongly emphasises its own values. Employees feel as though they are part of a larger family, with everybody given room to be an entrepreneur.' In the Netherlands, Ace & Tate is a major competitor: 'Ace & Tate's network is large, and their communication is well in order. They are a bit more expensive, more high-end. We cater to all clients, the elderly as well. Our stores are intended to function purely as showrooms for trying on and fitting glasses, and we do not keep an active inventory. Ace & Tate do, thus increasing their investment costs.'

Source: www.sprout.nl, 15-10-2018

polette



1 INTRODUCTION

The introduction to this book states that its topic is organisation and management. However, the original and more widely used name for this field is that of organisational behaviour!

Organisational
behaviour

Organisational behaviour can be defined as 'an interdisciplinary science concerned with the study of the behaviour of organisations, as well as with the factors that

determine this behaviour, and the manner in which organisations can be directed with maximum effectiveness'. In this context, the concept of behaviour is given to include actions and reactions within organisations.

This definition of organisational behaviour encompasses two aspects of the subject, namely:

- 1 a descriptive aspect.** This is a description of the behaviour of organisations, including motives and consequences;
- 2 a prescriptive aspect.** This is advice about recommended organisational design and course of action.

Descriptive aspect

Prescriptive aspect

This double-sided nature can also be seen in other practical sciences, including medicine, psychology and pedagogy. Even more so than these other fields, however, organisational behaviour is oriented towards practical application and pragmatism. This means that the importance of a methodologically sound line of reasoning and sound evidence are considered to be less important than the identification of practical ramifications.

The term interdisciplinary is sometimes linked with organisational behaviour, although the term is often misused. To clarify: organisational behaviour contains many elements that have originated with other sciences. The study of organisations involves many disciplines from various scientific fields. Examples of such fields are business studies, which comprises topics like financing, accounting and bookkeeping, marketing, technical sciences, information technology; behavioural sciences, like organisational psychology or sociology; and law.

Interdisciplinary

Combining all of the contributions from these fields in order to undertake and complete a study or project does not make for an interdisciplinary approach, but for a so-called multidisciplinary approach. An interdisciplinary approach takes matters one step further. That is to say: the various contributions from the other subject areas are individually evaluated and then used to develop a new insight, one that reviews the subject in its entirety. Here, the existing disciplines cease to be recognisable in their original forms (contrastingly, this situation does not apply to a multidisciplinary approach). The interdisciplinary approach, therefore, is an ambitious one. It is an often pursued ideal, which tends to be unattainable. Often, it is impossible to move past the multidisciplinary approach, even in organisational behavioural research.

Multidisciplinary

Two other aspects of the definition of organisational behaviour are direction and effectiveness. The first of these can be described as 'attempted targeted persuasion'. In a more specific organisational sense, it may be described as giving direction to the processes occurring within an organisation. This direction refers to a goal which should be determined in advance. Processes take place within the framework of a structure. Development and adjustment of this structure is an important directional aspect.

Direction

The extent to which direction is successful is defined using the concept of effectiveness. The matter of who should carry out which tasks is expressly disregarded, whether they be formal organisational management, a consultant, a member of the board of consultants, or an employee who comes up with a suggestion during a staff meeting.

Effectiveness

The fact that organisational behaviour is concerned with obtaining an overall picture of an organisation, an organisational problem, or a project, means that abstraction is often required, and that details are of secondary importance – otherwise, one

would lose sight of the wood for the trees. This means that an organisational expert may often feel less at home in certain organisational fields than a specialist might. The organisational expert could be described as a generalist instead of a specialist. An alternative qualification could be 'a specialist of general matters'. As a result, organisational theory is often criticised for being a fragmented whole; a little of this, and a little of that.

Additionally, organisational behaviour is a science that is still in its infancy, and undergoing full development. This is particularly evident from the fact that there is currently no established system of knowledge and theory development; rather, organisational behaviour is subject to a collection of approaches. Together, these do not comprise a coherent whole in the same way as do mathematics and medicine.

2 ORIGINS OF THE FIELD OF STUDY

The subject of organisational behaviour was born from the need for a structured frame of thought and comprehension regarding organisations and their processes. When viewed from this perspective, it is a mature subject indeed. As early as the fourth century BC, Socrates and Plato put forward theories about leadership, task allocation, and specialisation.

It was first taught as subject in the United States in the second half of the 19th century, although not yet in its current form. Following the Industrial Revolution, as businesses emerged and expanded, management became far more complicated – and therefore required new and special skills.

One of the first people to suggest that management was a science that could and should be taught and learned, rather than a position that was awarded based on innate talent or inheritance, was Henri Fayol (1841–1925), who is discussed in greater detail in Section 1.7.

In the Netherlands, organisational behaviour was introduced as a major study at technical colleges shortly after the Second World War. The subject was initially called business organisation, and was more technical in its orientation.

Business organisation
Organisational
behaviour

Organisational behaviour in its current form was introduced into the Dutch higher educational system during the 1960s and 70s. Other disciplines, such as business studies, logistics, behavioural sciences and law, were incorporated into the subject. At the same time, the concept of the interdisciplinary approach was introduced. The underlying reason for this introduction was the ever-increasing complexity and size of organisations, particularly enterprises, caused by significant technical and general economic developments. The management of such organisations required more than mere aptitude in an appropriate field or possession of leadership skills. There arose a need for people who could examine, integrate, and draw conclusions from the contributions made by the various fields. In short: people with a holistic vision.

The initial impetus for change came from within the business world. This explains the name of the new field of study: business administration. Later on, other organisations began to see the advantages of the approach and began to apply many of the new insights to their own methods.

Degree courses in business administration exist in a number of universities and colleges today. Within various courses and studies, the topic of business administration is known alternatively as Organisational Behaviour, Business Organisation, Organisational Theory, Management and Organisation, Organisation and Management, or simply Management.

Organisation and
management

Businesses should learn from the lessons of the past

We find ourselves well into a new century. What will the 21st century have to offer? How will the Netherlands make itself heard among the world's superpowers? Strange though it may seem: the solution to many economic issues can be found in what has come before. Over the past 400 years, there has only been a handful of economic superpowers, and Holland was one of these. Still a diminutive economy circa 1500, the republic developed at lightning speed following its declaration of independence, and eventually became the world's leading economic nation. In 1700, income per capita in the Republic of Holland was 50% greater than that of its most important competitor, the United Kingdom. At the time, our country was at such a distinct advantage that Adam Smith, the founder of economic science, used Holland as an example for his countrymen in his *Wealth of Nations* (1776). Studies have shown that technological superiority was a particular key factor behind Holland's economic success. Its vast

competitive strength in terms of industry and trade were not founded on low wages or low taxes, as these were much higher in Holland than anywhere else. The republic is famous for its naval superiority in the 17th century. This superiority was also based on technological pre-eminence. A famous example is the so-called 'fluyt', a revolutionary type of sailing vessel which was developed in Holland circa 1590. A fluyt could be built at half the price of other vessels of the period. Furthermore, a 200 tonne fluyt could easily be operated by just ten men, whereas a British ship from the same period easily required a crew of 30. Therefore, you might well say that, in its Golden Age, Holland was a high-tech country 'avant la lettre'. It was also a country that enjoyed great economic independence (there were few restrictions imposed on economic life) and impressive entrepreneurship.

Source: *NRC Handelsblad*, 15 June 1994



3 DEVELOPMENT OF TRADE AND EMERGENCE OF MULTINATIONAL ENTERPRISES

Silk road

The foundation of (international) enterprise has always been a combination of trade among various tribes in various (cross-border) geographical regions. The earliest examples of international trade can be traced to the so-called 'trade routes'. The Silk Road, one of the oldest trade routes, was established in the 1st century BC. It connected Europe, the Middle East, and Asia, and therefore linked major large Roman and Chinese civilisations. The Silk Road ensured that commodities like silk, fur, pottery, iron, and bronze from Asia were transported to the west, and exchanged for gold, other precious metals, ivory, wool, and glass. Trade was mainly carried out by commission agents: middlemen who travelled part of the route in caravans. The Silk Road went into decline as a trade route around 1400 AD. Other important historic commercial routes include the Roman trade routes (50 BC to 500 AD), the African trade routes (1000 AD to 1500 AD), the Indian maritime routes (from 800 AD), the Spanish trade routes (15th and 16th century) and the Portuguese trade routes (16th century).

The first international trading companies (or multinationals) were established with the support and financial backing of national governments who wished to support their colonial trade policy. In 1600, the English East India Company was established with the primary goal of trading with East and South-East Asia, as well as with India. The Dutch East India Company (Dutch VOC, short for *Verenigde Oost-Indische Compagnie* – the United East Indian Company) was founded on 20 March 1602. The States General of the day granted the VOC an exclusive charter establishing their monopoly on all trade between the Republic of the Seven United Netherlands and 'India', meaning all countries east of the Cape of Good Hope. Over the course of its 200-year existence, the Dutch East India Company developed into the largest company of its time, trading in such spices as cloves, nutmeg, cinnamon and pepper, and other products like silk, tea, and porcelain. The Dutch East India Company went into decline during the second half of the 18th century, primarily because of competition from the English and the French. It was dissolved on 17 March 1798.

Other important trading companies were:

- the Danish East India Company (established in 1614);
- the Dutch West India Company (established in 1621);
- the French West-India Company (established in 1664);
- the Royal African Company (established in 1663);
- the Hudson's Bay Company (established in 1670).

Between the establishment of the first international trading companies and the beginning of the 20th century, the number and size of companies with departments in at least two countries, so-called multinationals, saw a dramatic increase; from around 3,000 multinational businesses at the start of the 20th century to approximately 89,000 by the end of 2014.

There are a number of factors that can explain this growth pattern. From a historical perspective, governments exerted the majority of influence on trade, but began to relinquish part of this influence. Technological developments also played a key role by, among other things, shortening distances (transport) and optimising communications between people at different locations (the telephone, satellites, the internet). Technology also improved the availability of greater and better know-how in various markets and consumer groups. Lastly, companies became able to

quickly address global developments by providing access to financial means for investments, setting up offices in different countries, employing staff, etcetera. The term multinational enterprise is used to refer to organisations that operate internationally. Many of these enterprises have fewer than 250 employees, yet still fall within this definition. Approximately 445 of the world's largest 500 companies are found in North America, Europe, and Japan. The Netherlands is home to 11 of these 500.

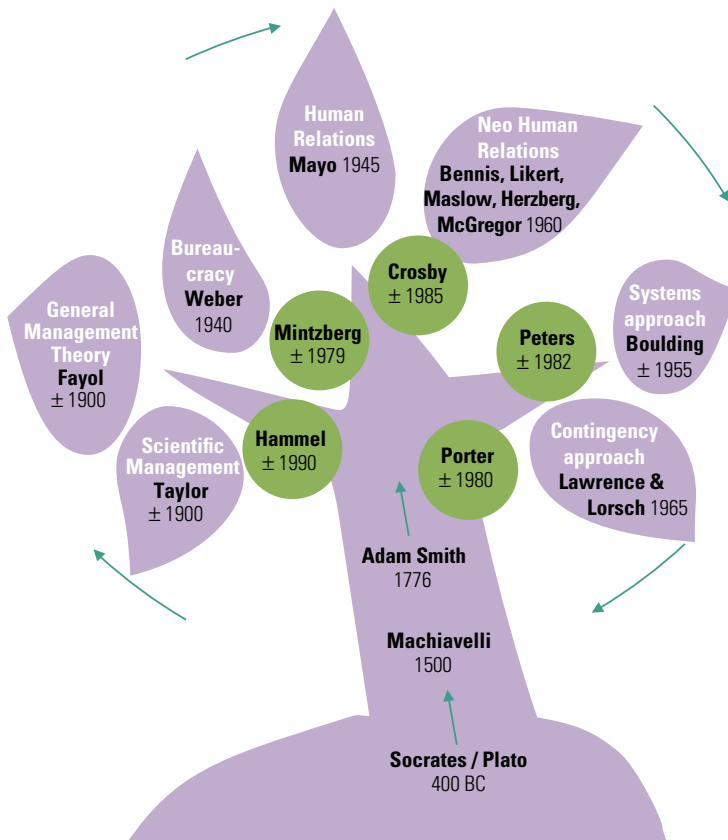
Following this brief outline of the development of trade and the emergence of multinational enterprises, the remainder of this chapter addresses schools of thought and personalities relevant to the development of organisation and management.

4 SCHOOLS OF THOUGHT AND PERSONALITIES

Figure 0.1 places the most significant contributors in the history of organisational behaviour on a time line. These individuals often represent a particular idea or school of thought within the field of organisational behaviour. The following sections discuss those schools of thought and personalities that have had (significant) impact on the development of organisational behaviour theory. But why delve into the past in this way? The reason is that these contributions still constitute part of the present theoretical framework of the current field of study. Although they often originated in a different era and are therefore considered

School of thought

FIGURE 0.1 IMPORTANT PEOPLE AND SCHOOLS OF THOUGHT IN THE HISTORY OF ORGANISATIONAL BEHAVIOUR



somewhat dated, they contain valuable elements whose nature is timeless. Theoretical views and personalities of more recent times are also discussed, and the reader may notice that many of the new theories have their roots in the past. The core issue has always been that of achieving goals through combined effort. Here, division and coordination of tasks, selected leadership styles, as well as communication methods play an important role.

The contributions made by the various individuals relate to different aspects of organisations. Naturally, many of the theories rely on different principles. Some theories have apparently arisen in response to earlier ones, which were subjected to critical review, called (at least partly) into question, and then countered by a different theory or approach, without completely discrediting the original ideas. As such, the theoretical framework of organisational behaviour has developed a rich and varied, albeit occasionally incoherent, character.

5 EVENTS PRIOR TO THE INDUSTRIAL REVOLUTION (400 BC–1900 AD)

As indicated in the previous section, notions about leadership, management and the design of organisations are, in fact, as old as humanity. Formal studies on these topics were, however, quite rare before the twentieth century.

Niccolò Machiavelli

Nevertheless, there are some examples in the writings of ancient Greek philosophers such as Socrates and Plato, and much later in the works of Italian Niccolò Machiavelli (1469–1527). In his book *Il Principe* (The Prince), Machiavelli provides numerous potentially useful guidelines for rulers and other leaders. These guidelines focus primarily on the preservation and expansion of power. Their nature is extremely opportunistic, based on pure self-interest and the ability to unscrupulously take advantage of a situation whenever opportunity presents itself. *Il Principe* represents Machiavelli's accumulated experiences as an advisor to the government and as a diplomat in Florence.

Mercantilism

Until the second half of the 18th century, the dominant economic school of thought was that of mercantilism. A key belief of this philosophy was that one's possessions in gold and money were the only source of wealth. This changed in 1776, when Adam Smith (1723–1790) wrote his influential *An inquiry into the nature and causes of the wealth of nations*. Smith's work put forward the idea that productive labour is the source of wealth and that, by proper distribution of labour, labour productivity can vastly be improved. Adam Smith thus rejected the value of mercantilism.

From then on, management began to take a more systematic approach to operations, with greater attention being paid to efficiency.



Adam Smith

The 18th century was an age of ground breaking technological advancement: the invention of the steam engine, the use of coal as fuel. This made it possible to maintain large factories aimed at mass production instead of product manufacture in workers' homes or small workplaces. The explosive growth of factories attracted large numbers of workers from the countryside. Western civilisation turned from agriculture to industry. In the larger cities, the growing working classes lived in poorly built workers' houses. Their pay was low and their living conditions were miserable. This development began in England. Then, after 1840, it made its way across Western Europe and the United States.

By the end of the 19th century, American companies had grown dramatically in response to the ever-expanding consumer market. The existing system of checks and balances had become inadequate. The division of responsibility between supervisors and staff was unclear, production standards and wages were determined subjectively, and an air of unpredictability prevailed. Planning was almost unheard of. Managers had only one objective: to keep pushing their workers into producing as much as possible. The workers, in turn, responded by systematic and organised stalling.

The situation began to call for a more structured and systematic approach. The man who recognised the issue and was willing to address it was engineer Frederick Winslow Taylor (1856–1915), whose publications and lectures laid the foundations for what later came to be known as Scientific Management.

6 FREDERICK TAYLOR AND SCIENTIFIC MANAGEMENT (C. 1900)

Frederick Taylor was the first to suggest a systematic, coherent approach to determining the manner in which factories should be organised. Rather than having managers fulfil the role of slave drivers, Taylor proposed they adopt a broader view of their tasks within the organisation: planning, coordinating, overseeing, and verifying results.



Frederick Taylor

Henry Ford, a stubborn but brilliant businessman with eccentric tendencies

O&M IN PRACTICE

His introduction of the assembly line changed the industry, but his behaviour was that of an enlightened despot: Henry Ford was an odd character.

The implementation of the assembly line in his car factory and the notion of base salaries for his employees means Henry Ford did more than make automobiles affordable; he laid the foundations for the rise of an age in which machines and mass consumption began to determine the modern world. More than once, Ford has been referred to as the Steve Jobs of the 20th century. He had little sympathy for the world in which he lived and tended to withdraw from the society that his mechanisation had helped make faster and more impersonal. Aside from his entrepreneurship, he took on many social projects: from the construction of a hospital to the development of a number of agriculturally-oriented towns along the Tennessee River. Apart from a nature of simultaneous introversion and engagement, Ford's obsessive drive is also reminiscent of that of the twentieth century, self-absorbed CEO. Ford's views on social

development were exceptionally confusing. Ford's biography by Vincent Curcio shows that successful businesspeople who are not kept firmly in check by their surroundings will come to entertain notions that cannot bear the light of day. At the high-point of his success, Ford became America's most vocal and influential anti-Semite. He published **The International Jew**, a best-seller translated and published around the world, which was seen as an important source of inspiration by Hitler and other Nazis. In fact, Henry Ford was the first person to receive the Grand Cross of the German Eagle, the highest honour bestowed on foreigners by the Nazis. Ford later renounced his anti-Semitism, and made his apologies on multiple occasions.

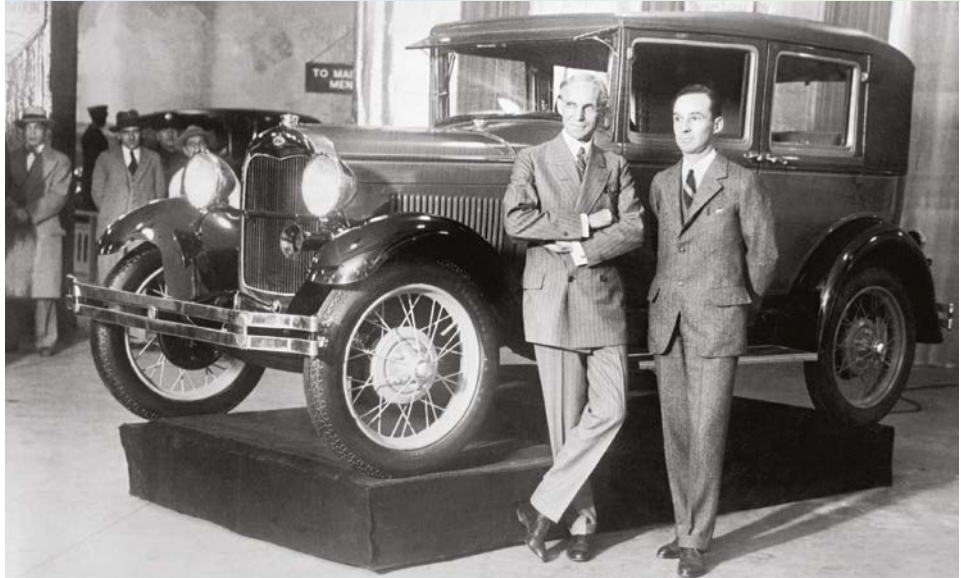
But Ford did not stop at anti-Semitism; he turned from a paternalistic CEO into an enlightened despot. He grew increasingly narcissistic and blunt. Like a true Steve Jobs, Ford would fire the engineers crucial in the construction and growth of his automobile plant. His distrust of his employees grew to such proportions that he would hire



company detectives to spy for him. In the 1930s, his factories increasingly came to resemble labour camps. Assembly line speeds were ramped up to stop employees being able to carry on a conversation. Many labourers contracted a case of so-called 'Forditis': a working life characterised by apathy, submissiveness, and exhaustion.

Biograph Curcio concludes that powerful CEOs benefit from a strong supervisory or governing board. History, however, shows us that no self-absorbed CEO post-Ford was hardly ever kept in check by their direct surroundings.

Source: *Het Financieele Dagblad*, 8 March 2014



Scientific management Several key elements of the theory of management and control of organisations (Scientific Management) are:

- 1 Scientific analysis of the activities that should be carried out, and the time and motion studies to be used. (The results can be used to standardise and normalise the production process and machines and materials used.)
- 2 Extensive division of labour and workforce training, with each task and operation clearly prescribed; this results in worker routine, leading to improved production standards.
- 3 Close and friendly working relationships between managers and workers.
- 4 Managers are held responsible for seeking and analysing appropriate working methods and for creating optimum conditions for production. Formerly, this was left to the implementation phase.
- 5 Use of careful selection processes to obtain the best person for the job.
- 6 Financial rewards for adhering to prescribed methods and targets in order to reduce production costs.

Furthermore, Taylor proposed a division of front-line supervisory responsibilities within the production department into eight separate areas, with each area and its tasks to be the sole responsibility of a particular individual:

- 1 time and costing;
- 2 task instructions;
- 3 processes and their order;
- 4 work preparation and allocation;
- 5 maintenance;
- 6 quality control;

- 7 technical guidance;
- 8 personnel management.

This system has come to be known as the 'eight-bosses system'. Under Taylor's leadership, the system worked, but it failed to become widely adopted elsewhere due to its many coordination problems and lack of clarity for workers.

Aside from his theory of organisation mentioned above, the influence of Taylor's ideas was enormous. Wherever his principles were applied, productivity shot up, and his ideas began to spread rapidly. However, the increase in efficiency was rarely matched by the increase in wages or improvement in managerial relationships Taylor had envisaged. The impact of these consequences, immortalised in Charlie Chaplin's 'Modern Times' and inextricably linked to Taylor and the concept of scientific management, was the idea that workers were simply an extension of the machinery, with monotonous labour, restriction of freedom, and reduced job satisfaction.

Eight bosses system



Charlie Chaplin in Modern Times



Another consequence of Taylor's ideas was the improvement in management and control of production departments across the industrial world. Administration and sales departments took their lead from production, and were soon using similar methods. Next was the development of various standards in production and materials. Planning techniques were developed and applied more than ever before, with accompanying improvements in progress control. Modern concepts like labour studies, labour science, job descriptions and job classifications can all be traced back directly to Taylor's ideas. He fundamentally changed working methods in organisations and has become an important figure in the history of organisational behaviour.



Production department at a machine plant

7 HENRI FAYOL AND GENERAL MANAGEMENT-THEORY (C. 1900)

Henri Fayol

In Europe, it was Henri Fayol (1841–1925) who first developed a coherent set of guidelines regarding the way organisations should manage their operations as a whole. His experience as the manager of a mining company led him to formulate his theory of general management, thus affecting the organisation as a whole. In this respect, Fayol took a different approach than Taylor, who looked at systems primarily from a production angle. Fayol's theory was also directed at organisations other than industrial enterprises. He thought it should be possible to formulate principles that applied wherever people worked together, and that these principles could and should form the basis for a field of study. His General Management theory was intended to be an educational model. Fayol identified six independent management activities:

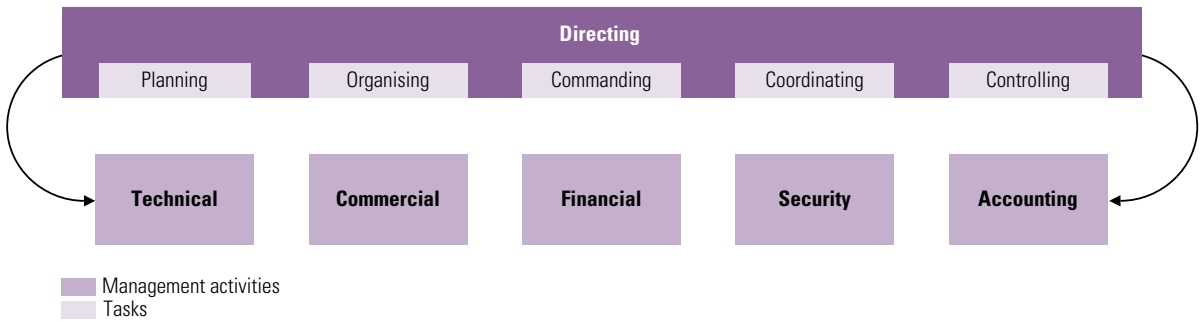
General Management theory Management activities

- 1 technical;
- 2 commercial;
- 3 financial;
- 4 security (understood to mean the safety of people and possessions);
- 5 accounting;
- 6 direction.

Direction ensures the coordination between the other activities (see Figure 0.2). Naturally, direction comprises the mainstay of the function of managers. It consists of five tasks:

- 1 **Planning or anticipating:** setting up of an action plan for the future.
- 2 **Organising:** structuring the organisation using people and resources.
- 3 **Commanding:** ensuring full employee participation.
- 4 **Coordinating:** aligning each activity to the plan.
- 5 **Controlling:** ensuring that the results conform to the planning.

FIGURE 0.2 RELATIONSHIPS BETWEEN MANAGEMENT ACTIVITIES IN THE 'GENERAL MANAGEMENT THEORY'



Unity of command was Fayol's leading principle.

Each employee should report to one immediate superior. At the time, this principle was the only structuring principle in use; it was developed in the army, where it is the supreme principle to this day. This means that Fayol's notion clashes with Taylor's view, as Taylor's functional organisation broke away from the concept of unity of command.

Fayol's significance lies in his belief in the universal character of management and his strong support for formally training future managers in their chosen profession. His legacy was the driving force behind the increase in attention paid to the tasks of the manager.

Unity of command

8 MAX WEBER AND BUREAUCRACY THEORY (C. 1920)

Whereas Taylor focussed on manufacturing companies and Fayol on management in general, Max Weber (1864–1920) studied government organisations and large businesses from a sociological perspective.

According to Weber, major organisations have the following characteristics:

- a** a clearly and definitively implemented division of tasks;
- b** a hierarchical command structure;
- c** carefully defined authorities and responsibilities;
- d** impersonal relationships between officials (position is placed over person);
- e** recruitment based on ability and knowledge instead of relying on favouritism and having the right contacts;
- f** promotion and reward based on objective criteria and procedures;
- g** implementation of activities according to clearly laid down procedures;
- h** all data is recorded in writing so that complete control of all aspects is possible;
- i** the power of officials, even senior ones, is bound by documented guidelines.



Max Weber

Max Weber

Weber posited that, if an organisation functions according to the characteristic listed, it is an ideal bureaucracy. In his opinion, bureaucracy was the most efficient form of organisation, since everyone in such an organisation would function coherently: like the cogs of a well-oiled machine.

The 'ideal bureaucracy' is not just a description of an organisation, but also a theoretical model helpful to the study of organisations. A number of modern-day writers in the field of organisational behaviour, writers who are discussed in greater detail elsewhere in this chapter, have also published theories in relation to such ideal types.

Ideal bureaucracy

Weber's definition should be viewed as being distinctly separate from the negative connotations that surround the word 'bureaucracy'. It is common to link the word to themes of inertia, red tape, unending successions of pointless rules, and so on. Weber's description was intended to be an objective, scientific analysis of the dominant organisational form of the time. He identified positive and effective qualities, such as the execution of rules without personal bias, and the appropriate performance of administrative tasks. He also highlighted some of the less effective, negative characteristics, such as inflexibility and the lack of initiative and creativity. He saw bureaucracy as a perfect means for reaching management targets, as well as an organisational form that functioned so perfectly in itself that its permanent continuation also became an objective. The emphasis on technical perfectionism, however, could lead to the structure being considered more important than the organisational goals which, of course, would have consequences for the continuity of the organisation.

To this day, one of the characteristics of Weber's 'ideal bureaucratic' model are recognisable in some organisations, particularly in larger ones.

9 ELTON MAYO AND THE HUMAN RELATIONS MOVEMENT (C. 1945)

Human Relations movement



The Human Relations movement arose at the time that Scientific Management, and its accompanying, highly rationalistic approach to working organisations, was the most important organisational theory. It was against this backdrop that, in 1927, research was initiated into the influence of workplace light levels on the performance of production workers in the General Electric's plant in Hawthorne, America. In one group, light levels were raised – while in a separate control group, light levels were kept as they were.



Hawthorne-plant

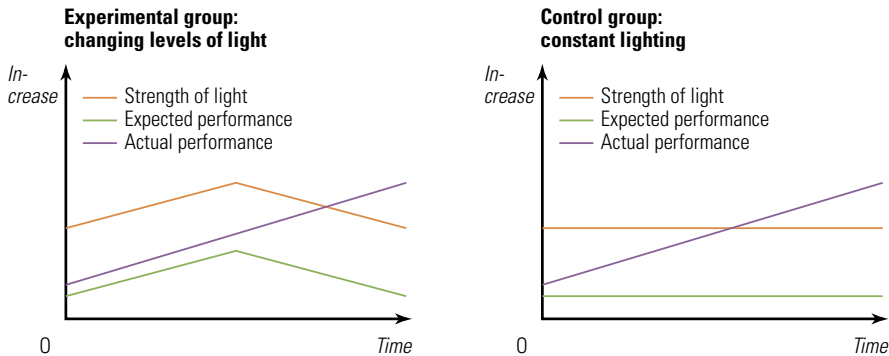
Hawthorne plant

Production in the experimental group did increase but, to the amazement of the researchers, so did production in the control group – by approximately the same level. Then, when the lights were dimmed to minimum levels, the results showed an additional surprise, as productivity continued to rise! The scientists were mystified, and Elton Mayo (1880–1949) of Harvard University was invited to find an explanation for the phenomenon.

Elton Mayo

Between 1927 and 1947, he carried out a series of experiments in order to examine the connection between improvements in working conditions (for example, shortening the working day, increasing the number and duration of breaks, providing free soup or coffee during morning breaks, etc.) and productivity. Each change led to an increase in production and a reduction in employee fatigue (see Figure 0.3).

FIGURE 0.3 THE INFLUENCE OF LIGHT ON WORK PERFORMANCE



Source: De Wilde, *Stoeien met organisaties*, Kluwer 1999

In the lighting experiments, the underlying cause for the increase in productivity appeared to be simply that staff members received increased attention during the experiment. Mayo thus proved his theory that, in addition to objective factors, subjective factors – such as attention, a feeling of security, belonging to a group, and appreciation – have an effect on results. Subjective factors are, in fact, even more important. According to Mayo, group feeling was the most important factor of all. He developed his theory and explored it in his book *The Human Problems of an Industrial Civilisation* (1933), a highly influential work.

Objective factors
Subjective factors

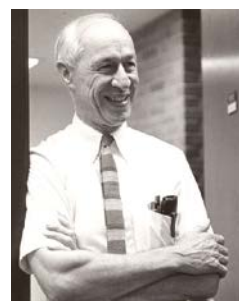
In the wake of Mayo's work came a vast swath of new studies. A new form of management had been propagated, based on the social needs of workers in small groups; an idea vehemently opposed to the Scientific Management approach, which was strictly rational and focussed solely on individual production workers. The movement is, in fact, based on the assumption that happy, satisfied people tend to perform to the peak of their productive ability. This means that company management should cultivate good interpersonal relationships in relatively small groups, as well as give adequate attention to groups and individuals, show their appreciation, and bestow adequate personal responsibility and freedom.

Cooperation is key, which means that proper social skills are very important for managers. The movement's most significant contribution is the discovery of the link between human factors and organisational effectiveness.

Cooperation

10 RENSIS LIKERT (AND OTHERS) AND THE NEO-HUMAN RELATIONS APPROACH (C. 1950)

In the period from 1950 to 1955, criticism of the ideas of the human relations movement began to appear. Many saw it as an overly idealistic view of organisations – one that portrayed them more as a kind of social club which would rarely, if ever, exist in practice. Moreover, the ideas were not unanimously supported by subsequent research results.



Rensis Likert

Warren G. Bennis

Neo-Human Relations

Rensis Likert

'Linking pin' structure

Frederick Herzberg
Hierarchy of needs
Abraham Maslow

On the other hand, there was no desire to return to the ideas of scientific management. It was therefore time for a synthesis of the two. Warren G. Bennis described the situation like this: The Taylor approach leads to 'an organisation without men' while that of the human relations movement creates 'groups of men without organisation'. He emphasized the need for a revision of the human relations approach; from this, the term neo-human relations was born.

Other writers undertook to bridge the gap between the two opposing ideas, including Likert, Herzberg, McGregor, Burn and Mouton, each doing so by approaching the issue from their own individual perspective.

Rensis Likert (1903-1981) was the first to attempt to reconcile the two movements. He looked specifically at the organisational structure and internal communication, and developed the so-called 'linking pin model', with the organisation consisting of a number of overlapping groups, whose leaders are also the members of a higher group (linking pin). Leaders should, naturally, lead the group, but also ensure proper communication with the higher group (see Section 11.7 for more).

A different theory was developed by Frederick Herzberg, who based it on psychologist Abraham Maslow's hierarchy of needs. This hierarchy, presented as a pyramid (figure 0.4), consists of five levels of human needs; needs which, according to Maslo, all human beings strive to fulfil. The hierarchy of needs can therefore explain all aspects of human behaviour. Once one level has been mostly satisfied, the individual's focus turns to the satisfaction of the next level of needs up.

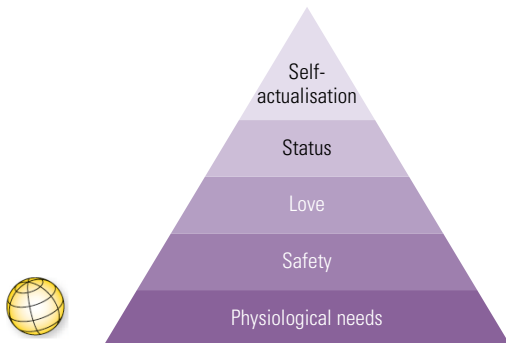


Abraham Maslow

In ascending order, the levels of needs are:

- 1 physiological needs (food, drink, sleep, sex);
- 2 security and safety needs (protection, stability, order);
- 3 love or relationship needs (friendship, group membership);
- 4 recognition needs (prestige, success);
- 5 self-actualisation needs (responsibility, personal development opportunities, creativity).

FIGURE 0.4 MASLOW'S HIERARCHY OF NEEDS



Although Maslow's theory has never been fully proven, many have found it to be appealing, and it has been highly influential as a result. Herzberg applied the theory to the behaviour of people in organisations.

Herzberg looked for factors that would amplify people's motivation in an organisation, as well as for factors that would lead to dissatisfaction. He concluded that there are 'satisfiers' (or 'motivators'), and 'dissatisfiers' (or 'hygiene factors'). Satisfiers are factors that lead to job satisfaction. These factors are work intrinsic, and include recognition and self-actualisation. But the absence of these stimuli

does not, however, lead to dissatisfaction. Dissatisfiers lead to job dissatisfaction, and consist of work intrinsic factors such as working conditions and wages. Poor quality work intrinsic factors lead to dissatisfaction; good quality work intrinsic factors, however, will not improve staff motivation.

In 1960, Douglas McGregor (1906-1964) used his book *The human side of enterprise* to present his theories, dubbed theory X and theory Y. These theories comprise two distinct and opposite versions of people in organisations. Theory X describes how most organisations worked at the time, and is strongly reminiscent of Scientific Management. Theory Y was McGregor's own vision of how people in organisations should cooperate. It should be pointed out that the X and Y theories relate to the human, not the organisational, perspective. Section 9.5.3 covers McGregor's theories in greater detail.

Douglas McGregor



Douglas McGregor

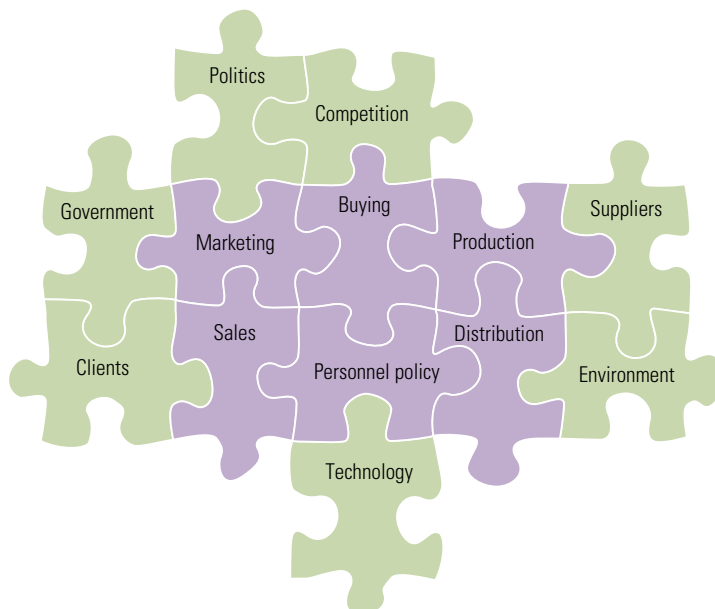
11 KENNETH BOULDING AND THE SYSTEMS APPROACH (C. 1950)

Following the Second World War, a number of neo-human relations supporters, including Kenneth Boulding (1910 –1993), developed a theory which views the organisation as a system (meaning a whole made up of coherent parts). According to this theory, all activities in an organisation are closely connected with each other. Another important element of the systems approach is that organisations interact with the outside world (the environment).

Kenneth Boulding

As figure 0.5 shows, a system (an organisation) consists of a number of subsystems (divisions), ostensibly connected with each other. When the total result of all subsystems working together is greater than the sum of their individual results, this is known as synergy. A system (organisation) is run with the help of information given (feedback) to the various subsystems (divisions).

FIGURE 0.5 THE ORGANISATION AND SURROUNDINGS AS ONE SYSTEM



According to the systems approach, management should tackle organisational problems consistently. That is to say: if a decision needs to be made, management

Systems approach

should look not only at a single organisational component, but at the effects of the decision on the total organisation. This may seem obvious but, frequently, local management staff tries to find a perfect solution to a problem in their own area without understanding its consequences for other divisions.

For example, a reduction in retained inventory generates a saving in warehousing space but can lead to longer delivery times – which can cost an enterprise some of its customers. This example shows the importance of using the systems approach in organisations.



Jay Lorsch

Paul Lawrence
Jay Lorsch

Contingency

12 PAUL LAWRENCE AND JAY LORSCH AND THE CONTINGENCY APPROACH (C. 1965)

At the end of the 1950s, Joan Woodward published the results of a study into a hundred English businesses. In the study, she had looked at the practical effectiveness of the organisational behaviour theories by Taylor and Fayol. Her research showed that there was no connection between the extent to which an enterprise is organised according to the rules of scientific management and whether it is economically successful. This was a sensational conclusion because, up until that time, the prevailing thought had been that there was, in fact, 'a best way of management'.

Americans Paul Lawrence and Jay Lorsch performed additional studies and, in 1967, concluded that, to optimise performance, different circumstances require different structures, task divisions, and working methods. The notion of 'contingency' they introduced calls for 'situationally dependent direction'.

According to contingency theory, the choice of management technique deriving from a theory of organisational behaviour is strongly influenced by the circumstances in which an organisation finds itself. Certain management techniques can be extremely successful in some situations – while in others, they may fail completely. The art is in discovering which circumstances require the application of which techniques.

One of the most important elements of contingency theory is the relationship between an organisation and its surroundings. It is of paramount importance that organisations have a clear focus on their surroundings. The contingency approach requires management to constantly be aware of the nature of the complexity of the interrelationships within their surroundings, and to match each situation with the most appropriate strategy, organisational structure, and so on.

Over the past few decades, there have been many new studies confirming the fundamental findings of contingency theory.

13 RECENT ORGANISATIONAL THEORIES (1980+)

Since the 1980s, many different writers and consultants have carried out extensive studies of organisations, followed by significant contributions to the development of organisational theory. This has been of great interest to many organisations of the 1990s. Many of the newly developed theories have not yet been classified into a definitive 'school of thought'. A number of these theories and authors are briefly discussed in the following section.

Recent organisational
theories

Philip Crosby (1926–2001) and quality control

An important recent trend in organisational behaviour has been towards quality control in organisations. The founder of theories on this subject was American W. Deming, who first applied his ideas to companies following the Second World War. One of the best-known modern-day 'quality gurus' is American Philip Crosby (1926–2001), who developed a total quality management theory that is used extensively by companies in Japan, Europe and America. Philip Crosby was vice-president of the International Telephone and Telegraph Company, where he was responsible for world-wide quality control for fourteen years. His company, Crosby Associates, is one of the world's leading consultancies in the field of quality management.

For Crosby, working according to the concept of 'zero defects' was crucial. Zero defects means that, in organisations, one must strive to avoid mistakes in all processes. He disregarded the outdated view that quality control is only necessary in production departments and not in the board room. Crosby believed that organisations could reduce their expenses by about 20%, provided they treat quality control as the number one priority within the workplace.

Philip Crosby
Totale quality
management theory



Concept of 'zero
defects'

Henry Mintzberg (b. 1939) and organisational structure and strategic planning

Canadian Henry Mintzberg continues to stand out with his remarkable contributions to the fields of organisational structure, management, and strategic planning. He is Professor of Management Studies at McGill University in Montreal and a part-time professor at INSEAD in France.

Amongst the authoritative books he has written are *The Strategy Process*, *Structure in 5's*, *The Structuring of Organisations*, *Mintzberg on Management* (1991) and *The Rise and Fall of Strategic Planning* (1994). He has won the McKinsey Award for the best Harvard Business Review article twice.



Henry Mintzberg

One of his most important works, *The Structuring of Organisations* (1979), can be seen as an attempt to blend the main organisational theories of how organisations ought to be structured. According to Mintzberg, the success of organisations cannot simply be explained by their choice of 'the best' organisational structure. He tells us that it is not possible to generalise about the best structure for organisations. In reality, there are many roads to success.

Henry Mintzberg



Mintzberg suggests that organisations should not view their qualities separately from each other, but that they should bring them together in a common form or configuration. A configuration can be seen as the 'ideal typical organisation'. Mintzberg identified five basic configurations that he has since extended with two new forms, namely:

Configuration
Five basic
configurations

- a The entrepreneurial (start-up) form
- b The machine bureaucracy
- c The professional bureaucracy
- d The diversified form
- e Adhocracy (innovative)
- f The missionary (ideological) form
- g The political form.

These forms or configurations each have their strengths and weaknesses. Depending on prevailing environmental factors, the degree of turbulence or stability, and organisational goals, these strengths become clear.

Although the configuration descriptions refer to 'ideal types' which, in reality, occur rarely if ever, Mintzberg believes that the study of these configurations is certainly still worthwhile as it helps one develop an ability to understand organisations more quickly. A closer look at the strong and weak elements within one's own organisation also has obvious value. In Chapter 9, extensive attention is given to Mintzberg's theories of organisational structure.

In his book *The Rise and Fall of Strategic Planning* (1994), Mintzberg wipes the floor with the traditional views of strategic planning. He concludes that strategy cannot be planned and that strategic planning often fails in organisations. Chapter 3 takes a closer look at Mintzberg's views on strategic planning.



Tom Peters



Tom Peters

Innovation
Entrepreneurial climate

Tom Peters (b. 1942) and management principles for excellent companies

Tom Peters is a management consultant and founder of the Tom Peters Group in California. He carried out applied scientific research to find a set of management principles for organisational development. In 1982, he published the results of a study into 43 American enterprises whose profitability had been consistent over a period of twenty years. Using these findings, he co-authored a book with Robert Waterman called *In Search of Excellence*, which went on to sell more than four million copies.

To explain the success of the enterprises that were studied, which included McDonald's, Procter & Gamble, Boeing, IBM and Hewlett Packard, the researchers identified the following eight common characteristics:

- 1 Strong action orientation.** Although many of the examined enterprises made decisions analytically, this did not paralyse them. The overall way of working was characterised by 'Do it, fix it, try it'.
- 2 Close relationships with customers.** As an enterprise, one can learn much from one's customers, and the most innovative enterprises took the best ideas for development of new products from their customers.
- 3 Creating entrepreneurship and autonomy.** One of the most significant problems for big organisations is that they are missing what originally made them grow, namely: 'innovation'. The art is in being large while, at the same time, retaining the ability to act small. For this reason, an 'entrepreneurial climate' must be created; here, highly creative employees can work on innovation. In such a culture, it is necessary to make room for the development of 'unorthodox' ideas, treating the process with a sense of freedom in which mistakes are not punished.
- 4 Employees are the most important source of productivity.** Enterprises that excel see their employees as a source of quality and productivity. One of the most fundamental points here is 'respect for the individual'. It is important to get the most energy and talent from one's employees.
- 5 Hands-on, value driven.** It is of great importance that an enterprise indicates its stance, its strengths, and its points of employee pride. All excelling enterprises seem to have clear values and take the creation of value seriously.
- 6 Stick with what you know.** Successful enterprises do not jump into areas of which they have no understanding.
- 7 Simple structure and lean supporting divisions.** All enterprises had a simple and clear organisational structure, i.e. not a matrix structure (see Chapter 9). Supporting (staff) divisions were also kept small.

8 Management is both centralised and decentralised. Many enterprises that excel are run using both centralised and decentralised aspects. These enterprises apply top-down, almost rigid control on core issues while, at the same time, giving divisions a large amount of freedom to use their entrepreneurial and innovative skills.

Recent history has shown that an enterprise with long-term past success is not guaranteed to repeat those results in the future.

At the end of the 1980s, IBM, for example, was forced to cut its staff numbers by nearly 50%. Of critical importance is the ability of enterprises to continually keep abreast of changes in their surroundings.

In his 1987 book *Thriving on Chaos*, Tom Peters says that chaos has become the norm. Nearly every day, managers are confronted with big changes that are linked to developments like those in IT and telecommunications. Enterprises must show absolute flexibility in order to use chaos to meet new challenges in the market. In his book, Tom Peters gives 45 recommendations to management on how to do this.

Books by Tom Peters published since 1987 include: *Liberation Management* (1992), *The Pursuit of Wow* (1994), *The Circle of Innovation* (1997), the series *The Brand You50*, *The Professional Services Firm50*, *The Project50* (1999), and *Re-Imagine* (2003) – a number 1 international bestseller.

Peter Drucker (1909-2005) and general management

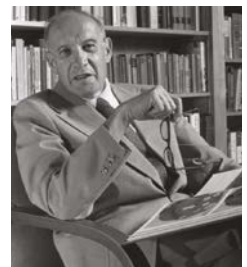
Peter Drucker is thought of by many as the 'father of all management gurus'. Since 1939, he wrote 35 books, translated into 24 languages, and published worldwide. According to Drucker, following the Industrial Revolution and dramatic increases in productivity, we have now arrived at a Knowledge Revolution. Knowledge has become the critical production factor, according to Drucker. The importance of nature, labour and capital lies mainly in the limitations that they impose. Without these production factors, knowledge can produce nothing.

Drucker estimated that the number of people currently employed in traditional industry sectors such as agriculture and industry has fallen by 20 to 25%. The remaining three quarters of the workforce can be divided into three approximately equal groups, namely: knowledge workers, such as high-quality specialists, professionals and technicians; highly trained service-providers, such as sales staff, instructors and civil servants; and less trained service-providers, such as cleaners, drivers and administrators, whose wages often remain below those of other groups.

Prior to 1990, management did not really direct much attention towards developments in productivity in the knowledge and services sector. But now that the productivity revolution in the agriculture and industry sectors has come full circle, there is an awareness that an increase in productivity in the knowledge and services sectors is an absolute condition for further economic growth. The key characteristic of knowledge work is that, to a large extent, knowledge workers determine the content of their job, and often without even paying much attention to productivity. Research suggests that about three quarters of employee time is frittered away due to inefficient coordination or through the performance of irrelevant tasks. Productivity can be increased significantly if employees keep in mind what they are really being paid for. Anything else needs to be rejected. Other remedies suggested by Drucker for considerably increasing productivity are: analysing and restructuring tasks; outsourcing supporting service tasks

Peter Drucker

Knowledge Revolution



Peter Drucker

Knowledge work

(which promotes competition); and forming teams that are particularly suited to a particular type of work. According to Drucker: 'As well as there being an economic challenge to create higher productivity, there is a hidden social challenge to the dignity of (new) people with a lower education level who are employed in the services sector.'



In his most recent work, *Management Challenges for the 21st Century* (1999), Peter Drucker offers a refreshing description of the future of management. According to Drucker, there is not one single correct organisational form. Managements should look for whichever organisational structure best matches the work that is to be performed; the organisational form is mainly of way of ensuring employee productivity. Drucker also predicts a number of other developments. Managers will increasingly have different work experience to their subordinates; a new balance will form between full-time and part-time jobs; the lifespan of the average current company will be no longer than 30 years – a number that will only shrink over time. Drucker investigated the fundamental questions of the new century, the changes in the world's economy, and the practice of management. What are the new realities, and how should companies match their strategies to stay afloat?



Michael Porter

Michael Porter (1947) and strategy

Michael Porter, a Harvard professor, has had a major influence on the development of strategic thinking and behaviour within businesses. The value of his work, as is discussed in Chapter 3, has particularly been in the creation of structures for the implementation of analyses that lead to successful strategies. Porter was the first to monitor the link between the meaning of managerial work and its effect on the success of an enterprise. In an award-winning 1979 McKinsey article entitled 'How Competitive Forces Shape Strategy', Porter used his Five Forces model to demonstrate how enterprises can analyse the market and their competitors' behaviour. In his first book, *Competitive Strategy* (1980), Porter discusses mainly the 'what' and 'why' of strategy.

His second book, *Competitive Advantage*, focusses mainly on the 'how' of strategy. He puts forward the suggestion that companies must search for their own competitive advantage. According to Porter, examples of competitive advantage include operating at a lower cost than a competitor, or creating 'added value' so that buyers will pay more for the product or service.

In his book *Competitive Advantage of Nations* (1990), Porter says that countries or regions create the factors that determine whether enterprises are successful. He outlines a number of criteria that can be used by an enterprise to judge the attractiveness of a location. Again and again, Porter comes to the conclusion that an organisation's surroundings are the source of ongoing competitive advantage.

Michael Porter



Sustainable competitive advantage



There's nothing new to the electric car

There is nothing new to the electric car. In fact, there was a time when there were more electric than petrol powered cars on the road. The petrol cars of the time were thought to be clunky, difficult to operate, smelly, and noisy. So what caused the about-face?

Compared to the first combustion engine cars, electric ones were better, easier to use, and quieter. Even Ferdinand Porsche (yes, the racing car bloke) produced an electric car as early as 1898. Its top speed was 35 kilometres per hour, and its range was 80 kilometres. In 1899, the electric car was still ahead of the pack in terms of car development. This is illustrated very clearly by the fact that the first car to breach the 100 kilometre per hour threshold was an electric one made by Belgian Camille Jenatton.

In 1909 an Amsterdam taxi company began operating the first fleet of electric cars: 12 in total. The move was a major hit, because everybody wanted to be driven around in one of those extraordinary taxis. For the time, the taxis' top speed was an impressive 40 kilometres per hour. The main reasons for the company to opt for electric cars was the fact that they cost little to operate, and were easy to use. As a result, the company would hire cheaper, less technologically savvy drivers. At the start of the 20th century, many well-to-do ladies would choose an

electric car due to its ease of use. An added bonus was the absence of unpleasant odours while driving. Mrs Clara Ford, the wife of automobile manufacturer Henry Ford, owned an electric car by Detroit Electric. Unfortunately, electric car producers were unable to adequately improve the quality of car batteries. From 1910 onwards, the combustion engine powered vehicle began to slowly overtake its electric competitor. The costs of combustion engine powered cars began to decrease following the implementation of serial manufacture. Ironically, it was the implementation of an electric starter in 1913 which sounded the death knell for the electric car. Before the arrival of the electric starter, cranking the combustion engine into life had been a difficult task – now, the press of a button was sufficient to start the engine. Petrol became more readily accessible, and was next to free. The electric car was now resigned to a life of highly localised mobility, such as for municipal parks and gardens workers, and transport around golf courses. In 1924, Amsterdam's electric cars were replaced by petrol powered versions, which were cheaper to use at the time.

Source: blog.newhippy.nl, Patrick Hogendijk, 18 March 2014



Michael Hammer (1948–2008) and business process re-engineering

Michael Hammer was one of the most authoritative management gurus of the modern age. He was a professor of computer sciences at MIT in the United States and a director at his own consultancy company. Together with James Champy, he wrote the very successful book *Re-engineering the Corporation, a Manifesto for*

Michael Hammer



Michael Hammer

Process-oriented Process

Business Revolution (1993). In this book, he argued that, over the last fifty years, business has been based on three principles, namely that:

- 1 the basic unit of work is the 'task';
- 2 simple tasks should be performed by lower educated people;
- 3 there is a distinction between 'those that do' and 'those that manage' (hierarchy).

In a world that changes slowly, characterised by predictability and continuity, it is understandable that these principles work well. However, in the current, turbulent times of rapid technological advancement and the explosive emergence and growth of world-wide markets, organisations are having to pay more attention to flexibility, quality, service, and a reduction of overhead costs. This does not mesh with the classic 'task-based organisation' that subdivided each process into all sorts of sub-processes which are then distributed across the whole organisation. This obviously leads to unnecessary inertia, bureaucracy and inflexibility. Hammer and Champy argue in favour of a revolution within business. At the core of this revolution is the idea that enterprises need to work in a process-orientated way. A process can be seen as a succession of activities that create value for a consumer. For example, when an organisation receives an order from a customer, dozens of departments are involved. The customer has no interest in the full range of any internal administrative and organisational processes, but only in the final outcome. The process must therefore become the organisation's starting point. In a process-orientated organisation, a significant part of administrative and management supervision disappears. Simple tasks vanish. The difference between performers and managers becomes less clear. Professionals and coaches work in new forms of organisation. The coaches concentrate mainly on inspiring and motivating the professionals, as well as on designing the work environment. According to the authors, this new organisational approach leads to major cost reductions: between 40% and 80%. Before this can become a reality, top-level management needs to be convinced of the need to make this change (see Chapter 8 for further details).

Coimbatore Krishnao Pralhad

C.K. Prahalad (1941–2010) and competition

Coimbatore Krishnao Prahalad (born in the town of Coimbatore, Tamil Nadu) studied physics at the University of Madras (now Chennai), followed by working as a manager in a branch of the Union Carbide battery company, gaining management experience. He continued his education in the US, earning a PhD from Harvard. He has taught both in India and America, eventually joining the faculty of the University of Michigan's Business School, where he held the Harvey C. Fruehauf chair of Business Administration.



He met Gary Hamel, then a young international business student. Their collaboration ultimately resulted in *Competing for the Future* (1994). This book described how management was in transition. According to Prahalad and Hamel, this transition was characterised by moving from the previous model of control-and-demand to a model which required managers to look for new market opportunities.

Globalisation Collaboration with clients/consumers

In one of his more recent works, *The Future of Competition* (2004), written in collaboration with Venkat Ramaswamy, Prahalad argued that companies had not made enough use of the opportunities provided by globalisation. The 'customer' is a more powerful and pro-active figure. Thanks to the Internet, they are better

informed and more creative. Customers demand greater influence in and control over the decision-making underlying certain transactions. Prahalad predicted a greater 'hands-on'-approach with regards to business, which would require greater collaboration with customers/consumers.

Prahalad earned worldwide renowned for his book *The Fortune at the Bottom of the Pyramid* (2004), at the start of which he proposes a simple though revolutionary notion: if one stops viewing the poor (the bottom of the pyramid, or BOP) as victims or a burden, and starts seeing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will present itself. The new markets are not a small group of wealthy individuals or a large group with moderate incomes, but the billions of people poised to undertake their first steps onto the world's economic stage. According to Prahalad, the bottom of the pyramid consists of four billion people subsisting on less than \$2 per day. This group could be the driving force behind the next round of global trade and prosperity, and a source of innovation. Providing service for customers at the bottom of the pyramid places a demand on major businesses to cooperate with social organisations and local governments. This will subsequently create millions of new entrepreneurs at a basic level. Prahalad describes this 'co-creation' between economic development and social transformation as the solution to the issue of poverty. The nine major countries which Prahalad envisions for this transformation are China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South-Africa and Thailand.

To improve the purchasing power of the poor, companies could offer their goods and services in a different manner, for example through offering smaller quantities. The result is a marginalised consumer who is absorbed into the economic system, allowing them to create and improve their opportunities for achieving a required higher income. According to Prahalad, innovation is the key. The entirety of the economic structure needs to be revolutionised. Companies should first focus on the poor, and the needs and possibilities of those poor, and then translate appropriate solutions to market segments.

Jim Collins (1958) and corporate culture and leadership

Jim Collins wrote the internationally best-selling *Good to Great* (2001), which is considered the most thorough, insightful, and revolutionary study of the past decades.

Born in Aurora, Colorado USA, Collins studied mathematical science, followed by an MBA at Stanford University. He then taught at Stanford University Graduate School of Business. These days, he owns his own management-research centre.

In his book *Good to Great*, Collins and a team of investigators analysed hundreds of Fortune 500-companies. But Collins' foremost interest was in those eleven companies who managed to turn a good enterprise into a magnificent, explosively growing one – and then keep their company at that level of excellence for years. Collins used his insights to formulate several principles. What differentiates these successful business from their competitors, and what might other businesses stand to learn from their practices?

According to Collins, the following factors determine company excellence:

- 1 Level 5 leadership.** Leaders who combine personal modesty with a professional drive (results-oriented). They are workhorses, often originally from the company itself. They ensure good compliance and place the responsibility for success with others.

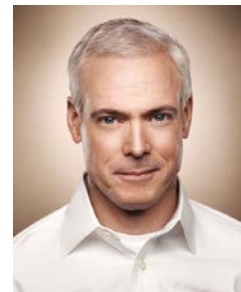


Coimbatore Krishnao Prahalad

Bottom of the economic pyramid

Innovation

Jim Collins



Jim Collins

Excellent companies



- 2 **Who before what.** The trick is to get the right people in the right places, and to get rid of the wrong people. Only then should one start determining direction and strategy.
- 3 **Culture of discipline.** If staff and operating methods are sufficiently disciplined, a company no longer needs bureaucracy or hierarchy. Entrepreneurship combined with a culture of discipline is the magic mix for amazing achievements.
- 4 **Face hard facts without losing faith.** The truth should be allowed adequate room to present itself through the creation of a climate which makes it possible for people to be heard.
- 5 **The Hedgehog concept.** After Greek writer Archilochus, who writes the following in one of his fables: 'The fox knows many things, but the hedgehog knows one important thing: the insight into one's potential for excellence.' According to Collins, this principle is constructed of the answers to three component questions: what activities offer a possibility for our company to be the best in the world, which activities are we the most passionate about, and which activities can earn us money?
- 6 **Technology.** While never being a factor that is crucial to success, the technologies that are applied should be selected carefully.
- 7 **The flywheel.** An excellent company does not simply happen; it is like putting into motion a great flywheel. Slow to start, it eventually starts to gain momentum. The size and scope of the transformation are only visible in hindsight.
- 8 **Safeguarding the core and stimulating progress.** The company's core values, what do we represent, must be safeguarded and preserved. The operational methods, on the other hand, should continually be adjusted to changes in circumstances.



Kjell Anders Nordström



Jonas Ridderstråle

Kjell Anders Nordström (b. 1958) and Jonas Ridderstråle (b. 1966) and changes in organisations

Kjell Nordström and Jonas Ridderstråle may be seen as the pioneers in a new generation of European business gurus.

Nordström and Ridderstråle met at the Institute of International Business at the Stockholm School of Economics. Their refreshing perspective on current management and their lively style of presentation make them popular speakers at conventions: Kjell and Jonas are 'rebels with a cause'. Their unorthodox combination of academic accuracy, powerful logic, and funky free-thinking spirit have led them to rewrite evolutionist rules.

Together, they wrote the bestselling works *Funky Business: Talent Makes Capital Dance* (1999), *Karaoke Capitalism: Management for Mankind* (2004), and the sequel to *Funky Business: Funky Business Forever: How To Enjoy Capitalism* (2007). In *Funky Business*, they describe how businesses (Funky Inc.) should become more fun places to be – places where people use their talents and are able to apply their creativity. Places where ideas come to life and interesting products in particular are developed more quickly. In short: funky places. First and foremost, funky business means diversity. Go for extremes, take risks, break rules, set new ones, shape the future. In order to survive, one needs to draw attention. Whatever one does, it should not be to think in terms of right or wrong. Whatever is, is. Irrelevance is a much greater problem than inefficiency. Doing business, according to the authors, is not a matter of science. It is simply one of making money. It is matter of having bits, brains, and brands. Brands are valium for our souls, and the world is the stage.

Funky business

Their second book, *Karaoke Capitalism*, is more of a manifesto. It highlights their political and ideological notions. They describe how one may become successful in a world of 'karaoke capitalism'. The karaoke economy is dominated with individuals who have limitless options and possibilities available to them. For corporate life, the problem is that the karaoke club is also a breeding ground of institutionalised imitation; there are copy-cats aplenty. Nordström and Ridderstråle issue a call to arms for greater creativity, originality, and imaginativeness, thus improving innovation. According to the authors, Karl Marx was correct: employees have no control over the production process. Instead, a 3-pound lump of grey matter, the brain, holds the key to the future. Successful enterprises distinguish themselves from their less successful competitors by recognising this fact, as a result of which they are able to more effectively put to use the intellectual and creative talents of their employees. In the New Economy, talent inspires capital to move around. The humdrum of current corporate life is no longer enough to retain employees, just like boring companies are unable to retain customers. Funky business is what is needed.

In *Funky Business Forever*, Nordström and Ridderstråle describe how companies should have acted following the IT-boom at the end of the 20th century. Central to their discussion are change and 'the desire to be different'. Talent is the only thing that makes one unique and think about the future.

Gary Hamel (b. 1954) and the future of management

Gary Hamel is often seen as one of the most important business thinkers, an expert in the field of business strategy.

Hamel has worked at London Business School since 1983, currently as a guest-professor of the Strategic and International Management department. Together with Prahalad, he invented the concept of 'core competences'. His book *Leading the Revolution and Competing for the Future* (1998) earned particular recognition. Hamel used this work to describe how innovations, instead of efficiency, should be the leading principle in business operations. New organisational concepts are a requirement for business success in the dotcom-era. Just like quality, innovation should be the responsibility of all employees. Key words for achieving success according to Hamel are speed, reorganising the self, tapping new markets and distribution channels.

In his most recent work, *The Future of Management*, co-written with Bill Breen in 2007, the authors argue that the current model of management has become obsolete, and that several companies have already replaced it with one of various alternatives resulting in greater innovation and a better fit with the knowledge economy.

Company management-DNA is still based on achieving improvements in productivity through systematic management under the principles of:

- a** standardisation;
- b** specialisation;
- c** objective outlining;
- d** hierarchy;
- e** planning;
- f** control and extrinsic rewards.

Karaoke economy

Kjell Anders Nordström
Jonas Ridderstråle



Gary Hamel



The Future of Management

Gary Hamel

Key principles of new management are:

- a** diversity;
- b** enabling active experimentation;
- c** de-politisation of decision making;
- d** making use of the wisdom of masses and markets;
- e** de-centralisation of leadership;
- f** accountability from the top to the first line.

Involving all employees in the company is of crucial importance when trying to create a democracy of ideas, to reinforce human imagination, to pool collective wisdom – thus ensuring everyone has a chance to participate. In doing so, none of the employees are drained of their natural human resilience. To this end, management principles need to be revised. In the management of the future, obedience, zeal, and factual knowledge need to make room for initiative, creativity, and passion. There are companies like Google and Whole Foods Market who are already working from this vision and following certain of its principles. Their emphasis is not on the top layer, but on teams lower down the organisational ladder, and they offer employees relatively large chunks of free time to employ their creativity.

Hamel is a great advocate of management innovation: Make change into an ingrained principle.



Eckart Wintzen

Eckart Wintzen (1939–2008) and cell philosophy

'If you want to grow quickly, be sure to remain small'. Becoming big by staying small seems a contradiction in terms but, as is often the case with the entrepreneur, inspirer, and management guru Eckart Wintzen, apparent impossibilities often lead to quite fine results.

Wintzen founded his IT-company BSO in 1976. It was the first company in the world to publish an annual report for kids, compiled and written in such a way that a child could understand it. But BSO and Eckart reached their claim to fame mainly through cell philosophy. Wintzen transformed BSO from a handful of people to a company of 6,000 employees when he bade his farewell in 1996. At the time, BSO/Origin was the Netherlands' number one IT-service provider. BSO was sold to Philips – a turnover of 375 million Euros in 21 countries.

Eckart Wintzen

Though his company BSO grew like wildfire, Wintzen viewed the growth as a mixed blessing; he did not really have any interest in being the 'big boss' of a major company. So, when BSO reached its first milestone of around 50 employees, he came up with a ruse: he created a second BSO. The company was split up into two approximately equal-sized 'cells'. The manager of one cell would have no trouble remembering the names of all their staff members, and could take greater responsibility for everything that went on in a cell. Decisive individual cells ensured better results than a juggernaut controlled top-down, and soon the two cells became four cells – and this cellular division kept going at a rapid pace. BSO grew extra quickly by staying small. The various companies were able to work fully independently, and could come up with their own ideas on what to do and how to do it.

Despite Wintzen's success, his unique management and business philosophy never received a very large following. Exceptional companies do appear to depend greatly on exceptional leaders. Ten years after the individual cells had re-merged into a 'normal' company, Wintzen offered his thoughts on the matter in his book *Eckart's Notes*. That the current managers never worked in the BSO-cells is

not an objection; Eckart's ideas are inspirational nevertheless. He feels that the main idea is to place one's faith in employees instead of imposing one's rules on subordinates. Which, actually, fits in very well with modern-day management philosophies, such as those of servant leadership and the flat organisational structure that many companies strive for, with a broadly supported sense of responsibility.

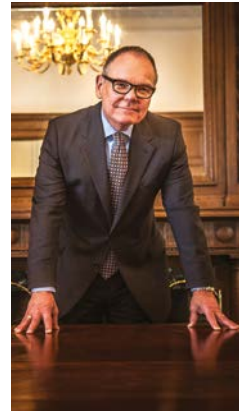
Long after Wintzen offered his employees greater freedom, and thus achieved success upon success, his ideas do seem to have taken the long way to become very topical. Wintzen referred to himself as a realist, not an idealist. He was a driven and busy man.



Don Tapscott (b. 1947) and Wikinomics

Don Tapscott writes influential best-sellers on digital revolutions and the necessity for innovation in a rapidly changing world. His motto: listen closely to 'the generation' and make room for massive-scale cooperation via the world wide web.

On the advice of a friend's daughter, he took up Twitter; somebody like him, involved with everything innovation-related on a daily basis, should really be taking part in the new digital world instead of analysing the situation from the side-lines, should he not? The 64-year-old Canadian best-selling author of works including *Growing up digital* and *Wikinomics* (2006) uses his personally compiled Twitter newspaper *The Don Tapscott Innovators Daily* to tweet about his specialist subject: innovation. He is inspired by the net-generation; young people like his friend's daughter, who has over 160 RSI-feeds constantly pushing new messages to her phone or computer. He is a strong believer in reversed monitoring. The younger generate should mentor the older one, not the other way around. His last book, *The Blockchain Revolution*, was published in 2016. Blockchain will be further discussed in Chapter 4.



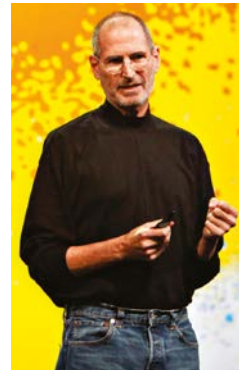
Don Tapscott

Don Tapscott



Steve Jobs (1955-2011): visionary master of simplicity

The death of the CO-founder and former CEO of Apple in 2011 meant the loss of one of the technology sector's most important icons. Black turtleneck, white sneakers, marketing genius. But also a hippy, fruitarian, Buddhist, and Dylan aficionado. Jobs was born to an American mother and a Syrian father in 1955. He grew up in a foster home. His childhood home was where he and Steve Wozniak put together the first Apple computer in 1976. Jobs felt that other computer enthusiasts were looking for a machine they could program themselves. And thus: Apple's basis for the personal computer. Wozniak was a genius technician, Jobs a passionate, visionary salesman. Thanks to the Apple II – a machine with a keyboard – it even became possible for non-nerds to use a computer. When Apple became a listed company in 1980, 25-year-old Steve Jobs suddenly had over 200 million dollars to his name. The real growth of the computer market headed by the IBM-PC in 1981 had not yet even begun. In 1985, Jobs had to depart Apple. He was not a suitable manager. Employees from those early years offered their thoughts on the situation in their biographies, describing fierce tantrums, Jobs' lack of overview, his meddlesomeness, and his compulsive tendency towards perfection. Regarding his forced departure from Apple, Jobs later commented: 'It felt as though somebody punched me in the stomach and knocked the air from my lungs. I had just turned thirty and I wanted a chance to make things.'



Steve Jobs

Steve Jobs

With his second computer company, NeXT, Jobs was again tripped up by his perfectionism. Hardly any of the very expensive NeXT-computers were actually sold. When NeXT collapsed, Jobs was asked to become a consultant at Apple, which had hit bottom. Jobs proved that he had learned from his mistakes, and that marriage and fatherhood had had a calming effect on him. His other project, the Pixar film company, became a huge success.

Jobs saved Apple through a few simple interventions. He reconciled with arch-rival Microsoft and used NeXT-software as the basis for the new operating system, OS X. Following the self-assured iMac, designed by Jobs' protégé Jonathan Ive, came the stark-white iPod in 2001. Apple rebranded itself from a make for nerds and geeks to one for the masses. The iPod and the iTunes store changed the face of the music industry: instead of CDs, the public preferred to purchase individual songs. Later, in 2007, the iPhone was the start of a mobile internet access revolution that forced market leader Nokia to its knees. The iPad was Jobs' next trump card: a very easy to use, portable alternative to the standard desktop PC. Competitors thought it was an apparently superfluous gadget, but it proved a best-seller. The 'App-revolution' is also completely due to Steve Jobs who, after all, designed the iCloud-webservice.

Jobs was a master of simplicity, in terms of both design and use. All Apple devices and matching software had one thing in common: they were designed to make 'complicated' technology accessible. Choosing what a device should *not* be able to do was one of the most important steps of the design process, according to Jobs.

Jobs found himself at death's door more than once, a subject on which he spoke at Stanford College in Palo Alto, California, in 2005. It was an unusually personal speech. 'Stay hungry, stay foolish', he encouraged the Stanford-students. 'Listen to yourself and try to find something you truly love. Follow your heart as though it is the last day of your life.'



Daniel H. Pink

Daniel H. Pink (1964) and the changing role of work

Daniel H. Pink (1964) is the author of several provocative, bestselling books about the motivation for changes on the workplace and the changing world of work. His latest book is called *To Sell is Human: The Surprising Truth About Moving Others* (2012). But of greater importance is his best-selling *Drive: The Surprising Truth About What Motivates Us* (2009).

In *Drive*, Pink describes what motivated people. Over the past decades, various theories have been put forward with regards to peoples' drive. Pink describes three so-called Motivators. These are 'Motivator 1.0', the need to survive, which is what activates people; 'Motivator 2.0', which encompasses the management of people through punishment and reward. For most organisations, this is the basis of their policy; 'Motivator 3.0' is based on the paradigm that people are activated only when they are intrinsically motivated, by using their strengths, and by feeling useful. In his book, Pink describes the fact that Motivator 2.0 is outdated and how managers should use Motivator 3.0 to motivate people.

This new approach provides three essential elements which create drive:

Daniel H. Pink

- 1 Autonomy:** the desire to direct our own (working) life after our image.
- 2 Mastery:** the desire to keep improving in a relevant field, a field that motivates us.
- 3 Purpose:** the desire to be part of something greater than ourselves, for example the ability to influence the life of someone less fortunate.



Clayton Christensen (b. 1952) and disruption

Clayton M. Christensen (1952) is the Kim B. Clark Professor of Business Administration at the Harvard Business School, where he teaches one of the most popular elective classes: 'Building and sustaining a successful enterprise.' He is regarded as one of the world's top experts in innovation and growth and his ideas have been widely used in industries and organisations throughout the world. His book *The Innovator's Dilemma* (1997) emphasises his ideas on disruptive innovation.



Clayton Christensen

Clayton Christensen

Most technologies are used to improve the performance of existing products using criteria currently applied by existing customers. Christensen calls these technologies 'sustaining'. Sustaining technologies are contrasted with so-called disruptive technologies, which create an entirely new value proposition. They improve the performance of products using new performance criteria. Products created through disruptive technologies are often smaller, cheaper, simpler, and easier to use than existing alternatives. At the moment of their introduction, however, they are not (yet) able to compete with the established, traditional products, which means there is no large market available.

Christensen performed a thorough analysis of how disruptive technologies have evolved in, for example, the computer disc industry, an industry evolving at lightning-speed.

Disruptive innovation is subject to the following set of four principles:

- 1** In well-managed companies, it is customers, not managers, who actually determine the patterns of resource allocation. In essence, middle-managers in companies do not tend to invest in technologies that important clients will not immediately appreciate, since these are not investments that will help them score a quick financial win.
- 2** Small markets cannot meet the growth needs of large companies. There are several arguments in favour of company growth. However, the fact is: the larger a company, the more difficulty it has to continue to grow. A small company (turnover of 40 million Euros) with a growth target of 20% will need to realise an 8 million increase in turnover. Applying the same growth target to a large company (turnover of 4 billion Euros) means they will have to realise an additional 800 million in turnover. Emerging markets are generally not large enough to satisfy the growth needs of big businesses; they are, however, large enough for small companies.
- 3** A market that does not exist cannot be analysed. The final application of a disruptive technology cannot be known beforehand. Failure is an intrinsic step along the path to success.
- 4** Available technology is not always equal to market demand. The speed of technological performance is often greater than that of the development of consumer needs. The performance improvement of disruptive technologies (for example the 3.5-inch disk, initially only used in the market for small laptop PCs) prepares innovations for their use in a larger market (the desktop-PC market).

In 2010, Christensen, in a now famous speech, addressed the graduates of Harvard Business School of that year. Drawing from his extensive research, he offered them a series of guidelines for a life that is successful, happy, and meaningful in all respects. The speech went viral across social media and led to one of the most often read articles ever in the authoritative *Harvard Business Review*. Later, it resulted in the book *How Will You Measure Your Life*, in which Christensen

poses the question of whether insights used in management theory can also be applied to managing personal situations. The question became more laden when Christensen found his life threatened by illness. His answer was: do not look for 'quick solutions', but think about 'how to solve problems'. Coming up with a solution on one's own turns out to offer a very effective intrinsic reward (happiness). His last book, *Competing Against Luck, The Story of Innovation and Customer Choice*, was published in 2016.



Stephen Covey

Stephen Covey

Stephen Covey (1932-2012) and the seven habits of effective leadership

Stephen Covey was a major guru in the field of living and working effectively. He wrote 12 management books in total; his best-known book *The 7 Habits of Highly Effective People* (1989) sold over 25 million copies worldwide. Born in Salt Lake City, Covey was a practicing member of The Church of Jesus Christ of Latter-day Saints; he was a missionary of the church in Ireland for 2 years. He was connected to (Mormon) Brigham Young University. Stephen Covey founded the Covey Leadership Center in 1985; over the course of ten years, the centre grew into a company of 750 employees, recording a turnover of over 100 million. Until his death at the age of 80 years old, he travelled far and wide to promote his ideas. Among managers, Covey enjoyed 'heroic status', and he was one of the most frequently asked management speakers. He also had a number of respectable clients in the Netherlands, including AH, ABN-AMRO, Philips, and Grolsch.

The *7 Habits* in the title of Covey's best-seller are habits one should ingrain into one's personality through force of will. Covey originally formulated them as seven commandments.



According to Covey, permanent success can only be achieved through the strive for the following seven habits:

- 1 Be proactive.** One's life depends on one's choices, not on one's circumstances. One should take responsibility and make conscious decisions and exert one's influence. Proactive people often have a growth mind-set (a desire for learning) and look for solutions, alternatives, and possibilities. Reactive people are quick to look for the causes of problems elsewhere than themselves. That means they also quickly stop thinking about what influence they may exert.
- 2 Start by visualising a goal/objective.** Effective people look at things differently than less effective people; they see more and are able to visualise the details of their goals with greater clarity. They are able to place their day-to-day actions within a wider context of their larger ambitions. This offers them a source of focus which improves their possible effectiveness.
- 3 Important matters come first.** Learn to prioritise after one's goals have been set. This habit is about dealing with the temporal factor: time management.
- 4 Think in terms of win/win.** Win/win is an attitude which requires the continuous search for profit in interaction. Decisions and solutions should, therefore, be advantageous to all parties concerned; they should leave all those involved feeling satisfied and committed to the plan.
- 5 First understand, then be understood.** Many people listen to others judgementally. Very effective people try simply to listen. They are able to empathise with another's thoughts and feelings very well.
- 6 Strive for synergy.** Synergy is the most inspirational habit. Covey sees it as the sum of the first 5 habits. Everything seems to be going effortlessly and smoothly; a certain 'flow' is achieved.

7 Keep fit. Covey describes how proper maintenance and care, as well as moments of intensive reflection with regards to one's physical, mental, social-emotional, and spiritual aspects lead to improvement and renewal, and thus to growth.

His philosophy and ideas are timeless and have inspired generation after generation.

Martin Seligman and positive psychology

Martin Seligman is an American psychologist. He graduated in philosophy at the Princeton University and earned his PhD in psychology at the University of Pennsylvania in 1967. He has chaired the Positive Psychology Network since 2000. Since the beginning of the 21st century, he has mainly focussed his attention on positive psychology, a movement born from humanist psychology. Together with Mihaly Csikszentmihalyi, Seligman continued on the groundwork of this movement, resulting in positive psychology. This form of psychology mainly focusses on what makes people happy.

Formerly, psychology in the US placed emphasis on addressing problems and negative aspects of existence. Positive psychology is a movement that is based on a person's strengths under the premise that happiness is not merely the result of the right genetic make-up or simple luck, but of identifying and utilising a person's strengths and qualities. It places emphasis on one's possibilities instead of one's impossibilities. Recognising and encouraging competences and virtues earns better results than correcting weaknesses: prevail instead of bewail. Humanity as a whole and the development of humanity's strengths is the focus. These strengths are the positive, functional, and health-promoting forces (core qualities). Core qualities are positive mental mechanisms which engender a feeling of fulfilment not just in individuals, but also in the people around them.

Seligman became particularly well-known for his books *Authentic Happiness* (2004) and *Flourish* (2011).



Martin Seligman

Martin Seligman



Kim Cameron and positive leadership

Cameron is one of the co-founders of the Centre for Positive Organizational Scholarship at the University of Michigan. This research centre focusses on studying positive outlying performances, virtuousness, strengths, and organisational approaches that lead to remarkable achievements. Cameron studied at Yale University (administrative sciences). His studies in the fields of virtue, effectiveness, quality and contractionary policy, and the development of leadership skills have been published in over 120 scientific articles and 14 books. His best-known book is *Positive Leadership* (2008).

Cameron originally devoted the bulk of his career to researching the effects of forced redundancy. In most organisations, this practice led to negative effects such as distrust, conflict, and long-term performance dips. Among the organisations that experienced a happier conclusion, factors like forgiveness, compassion, and gratefulness were essential. These findings made Cameron redirect his focus to what is now known as Positive Organisational Scholarship; positive psychology for companies, prioritising positive leadership.

This leadership style is a determining factor for organisational culture. A positive approach can lead to improved performance, improved commitment, and improved organisational culture. Positive leadership focusses on work-related



Kim Cameron

Kim Cameron



wellbeing, human strengths, resilience, and development. Attention, compassion, understanding, and the use of positive forces in everyday organisational practice leads to positive results. In practice, this means an active quest for positive deviations. Where and when are expectations exceeded? What is going exceptionally well? The art is in recognising and reinforcing the behaviour that is at the foundation of those achievements. Positive leadership also means working on good relationships at work, listening sincerely and investing in colleagues, taking them seriously, helping each other: in short, creating an energising culture. Leaders have a great influence on employee wellbeing and on productivity. Positive leadership revolves around personal interaction and is an exceptionally powerful force in organisation.

Chapter 9, Leadership, addresses the conceptualisation behind positive leadership.

Summary

- ▶ The subject of organisational behaviour was first taught in the US after 1850. Between 1960 and 1970, organisational behaviour as it is known today developed in the Netherlands. The underlying driving force was the increasing complexity and growth of organisation.
- ▶ Organisational behaviour is an interdisciplinary science that focusses on the study of:
 - behaviour in organisations;
 - factors that determine this behaviour;
 - the most effective ways of directing organisations.
- ▶ The definition of organisational behaviour encompasses two aspects:
 - a descriptive aspect: describing the behaviour of organisations with their motives and consequences;
 - a prescriptive aspect: offering advice on the recommended approach and organisational design.
- ▶ The schools of thought and individuals covered in this chapter all had an influence on the development on the subject of organisational behaviour. The following is a list of key concepts per school of thought.

School of thought	Key concepts
Niccolò Machiavelli (1469-1527)	Power and opportunism
Adam Smith (1723-1790)	Task division and productivity
Scientific Management (ong. 1900)	Organising production and efficiency
Henri Fayol (1841-1925)	General management theory
Max Weber (1864-1920)	Bureaucracy and organisation ideal type
Human Relations (c. 1945)	Informal organisation and subjectiveness
Neo-Human Relations (c. 1950)	Synthesis of Scientific Management and Human Relations: aligning human beings and organisations
Systems approach (c. 1950)	The organisation as a system and the interplay between organisation and environment
Contingency approach (c. 1965)	Applicability of management techniques depends on the situation
Philip Crosby (1926-2001)	Quality care in organisations
Henry Mintzberg (from c. 1979)	Configuration theory and seven configurations
Tom Peters (from c. 1982)	Management principles for good business operations
Peter Drucker (1909-2005)	Knowledge as an essential production factor
Michael Porter (from c. 1980)	Competitive advantage
Michael Hammer (1948-2008)	Restructuring operational processes
C.K. Prahalad (1941-2010)	Competition, innovation, globalisation
Jim Collins (from c. 2001)	Corporate culture and leadership
Kjell Nordstrom and Jonas Ridderstråle (from c. 1999)	Changes in organisations
Gary Hamel (from c. 1994)	Future of management
Eckart Wintzen (1939-2008)	Cell philosophy
Don Tapscott (2006)	The role of new technologies
Steve Jobs (1955-2011)	Master of simplicity
Daniel H. Pink (1964)	The changing role of work
Clayton Christensen (1952)	Disruption
Stephen Covey (1932-2012)	The 7 habits of effective leadership
Martin Seligman (1942), Kim Cameron (1946) and positive leadership	Positive leadership

This section examines the ways in which organisations interact with their surroundings. Initially, the focus is on the environmental factors that exert an influence on organisations. Then, it shifts to the ways in which organisations determine their heading in view of these factors. These strategies can sometimes lead to collaborations between various organisations.

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PART A

ORGANISATIONS

AND THEIR

ENVIRONMENT

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INTERVIEW WITH RAYMOND CLOOSTERMAN, FOUNDER OF RITUALS

Rituals' founder Cloosterman (1964) is sometimes referred to as the Dutch answer to James

Bond: always trying to beat the competition, at sports, at games. His examples are

Apple's Steve Jobs van Apple and Starbucks' Howard Schultz; no lack of self-confidence there.

His cosmetics company Rituals is the best-growing company in the Netherlands. Rituals sells deluxe bath and care product, scented candles, tea, and leisure wear with a story. With a turnover well over 400 million Euros and an incredible circulation speed, Cloosterman has managed to work without a major marketing budget. Rituals first looks for the story of an ancient ritual. Next, the company matches the tale to natural ingredients and develops a product. This development process is supported by an anthropologist and perfumers. There is no marketing research: the shop floor is Cloosterman's lab. Turning day-to-day care into ritual, a well-thought out concept, that is the strength of Rituals.

Raymond Cloosterman started with Unilever following a study in business economics. A new job as marketing director meant a half year on tour to find inspiration for new products. Following visits to Indian temples, Turkish bath houses, and New York and Paris





boutiques, the result was a fully developed business plan which Cloosterman felt was so good that he opted to set it up outside of Unilever himself. He launched Rituals in 2000.

What, in hindsight, were key moments for the company?

Cloosterman: 'First, there was Unilever's decision to invest in Rituals for the first two years. Even though we were an autonomous company

founded in part using our own savings, Unilever's support was essential. The second key moment came after some four years, working day and night and seeing little progress. We decided that it should not be the retail outlets but our own stores that should become the heart of the company. At the same time, we raised our standards: we wanted to compete only with the best products. That was a very important decision. We joined forces with the best perfumers, with providers of the finest ingredients. It also meant having to start over nearly from scratch. The third key moment was our breakthrough in Sweden and Germany circa 2014. That was the first time we found that our reputation had apparently preceded us. Business was good from the start. Germany was particularly important.'





So, those first years, Rituals was not an immediate success. Why do you think that was?

‘Our passion is to make our clients enjoy the little things in life. Our dream is to build a global brand; something that required millions of Euros we did not actually have. So, we had to ‘conquer’ our clients one at a time, catch them by surprise, and hope they would spread the word of the

quality of our product. That is a time-consuming process. Secondly, we may have been ahead of our time. Concepts like ‘conscious enjoyment’ and ‘mindfulness’ are found everywhere now, but they were not then. It was a pioneering effort, in that respect. We were the first to combine elegant stores and fine products with fair prices. That was another reason why things were so difficult at first: lower

prices mean lower margins. And lower margins are only sustainable with sufficient economies of scale. The first few years were a matter of persevering. Now, things are coming together, and we can begin investing in continued innovation.’

All Rituals products have their origins in authentic and ancient Far Eastern rituals. What made you decide to use Asian rituals and habits as the foundation for the brand?

‘People all over the world live their lives at high speed and do things on auto-pilot, so I looked for a way to change that. I believed then and I believe now that the way to achieve this is by realising that everyday routines should be transformed into meaningful moments. In practice, that means I wanted to reinvent and transform regular products, like shower gels and shaving foams, into something special. I had been working in this business for 15 years, and starting my own business was the only way of



changing things and taking an entirely different approach. I decided to take a step back, to look for and to find inspiration abroad. My travels made me realise that, in our western world, we are always striving for innovation and renewal without looking at the past. Ancient eastern cultures actually treasure the wisdom of the past. That was when I understood I had found my niche.'

Responsible enterprise, how important is that?

'Rituals strives to use the finest sustainable and bio-organic ingredients. We do not employ animal testing and are members of the Dierproefvrij foundation, the Dutch foundation to prevent the use of animal testing. We also try to minimise our CO₂ footprint. All materials used are recyclable. None of our products use harmful chemicals like parabens. We feel it is very important to find new ways of reducing our impact on our planet, and have made some important

steps to that end. For example, we asked LCA-Center to conduct Life Cycle Assessment (LCA)-studies on our product packaging. We also offer refill products for our body and face creams and hand soaps. Our eco-chic refill system lets you cut back on CO₂ by 70%, on energy by 65%, and on water by 45%. To reduce our ecological footprint, we produce as close to home as possible. Currently, 98% of end products are made in Europe. In addition, we only use FSC-certified paper for secondary packaging and are trying our very hardest to achieve our goal of 100% recyclable packaging by 2023.'

In 2017, Rituals was the fastest growing company in the Netherlands. How did you manage that?

'Rituals started by working on brand recognition and company appeal through shop-in-shops. At the time, it was important for our chain to secure a spot in the Dutch Bijenkorf chain

of department stores. There are two advantages to starting in another store: people walk past shops they do not know, but if they are already in a familiar one, they will happily take a look. And you can immediately position your brand among other well-known products; in our case, Chanel. That was a boost for our products as well. To ensure that clients who have visited our stores continue to come back, Rituals makes sure to offer 300 new products every year. New products are good for clients and staff alike: people like to work with something new. The goal is global domination: we have already expanded to the US and have set our sights on Asia. Just as long as local DNA and the Dutch mentality that is characteristic of Rituals are blended in the proper proportions. The need to de-stress is ubiquitous.'

Source: www.sprout.nl, www.deondernemer.nl, *de Volkskrant*, 28 February 2017, www.quotenet.nl





1

ENVIRONMENTAL INFLUENCES

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After studying this chapter:

- you will be able to identify the various environmental factors and stakeholders that exert an influence on the organisation;
- you will have gained insight into how these influences affect individual organisations.

Catawiki, online auction house

Catawiki is one of the Netherlands' fastest growing companies. The online auction house currently employs over five hundred people. Founded in Assen, the Netherlands in 2008, Catawiki is one of the fastest growing start-ups in Europe. The company is rapidly expanding and earns money through the commission and provision from the buyers and sellers at the numerous auctions the platform provides. Catawiki is paid 12.5% on all items by sellers, as well as a percentage of commission by buyers.

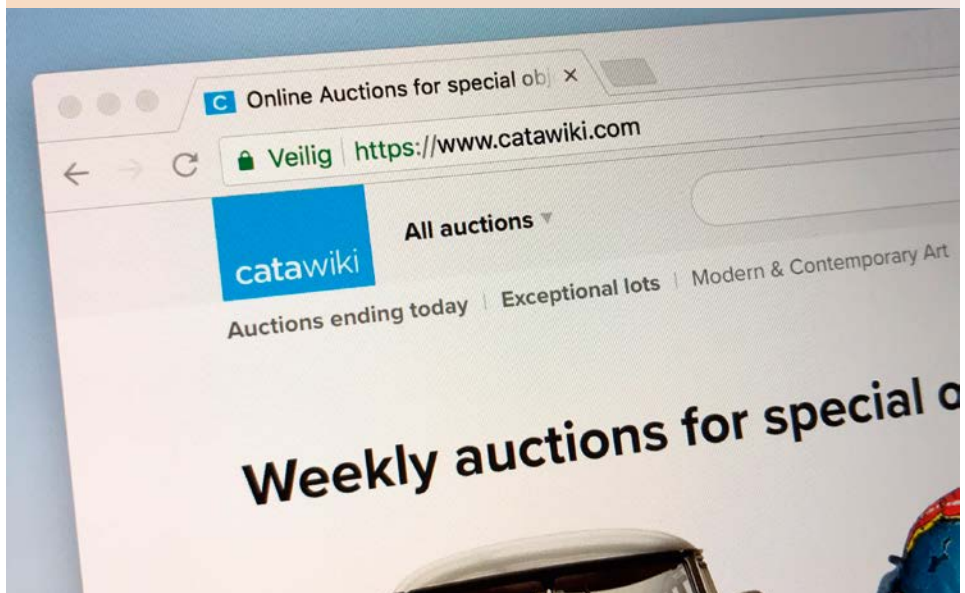
Jewellery, stamps, and other products: Catawiki auctions off anything collectable. Every week, the company hosts a variety of auctions open to bidders the world over. Catawiki has offices in Germany, France, Spain, and Italy. Over the past years, Catawiki has expanded its range of auction

categories. In addition to art, antiques, and true collectables, the company now also auctions off luxury goods, such as watches and jewellery.

Catawiki's rapid growth requires funding: the online auction house doubled its income to 35 million Euros in 2016, while tripling its losses to over 22 million Euros. Staff and advertising fees placed the heaviest burden on the results.

Expectations are that the company will continue its line of growth over the coming years, both in terms of staffing as well as the application of new technology, such as machine learning and artificial intelligence, with new technologies currently seen as a driving force behind the intended growth.

Source: www.catawiki.com, www.sprout.nl



1.1 INTRODUCTION

Environment Stakeholders

Organisations are part of society, of daily life. Human society can be seen as the environment in which organisations function.

An organisation's environment consists of parties or stakeholders like buyers, suppliers, competitors and financiers. All of these exert a certain influence on organisations: they inspect the products or services of an organisation, and place demands that must be met to a satisfactory level. Some examples of these demands are favourable pricing, environmentally friendly production and packaging, good quality materials and quick delivery.

Organisations can, however, also exert an influence on the aforementioned individuals and parties through such means as advertising campaigns, supplying information, providing advice, products and services, and maintaining direct contact with their stakeholders.

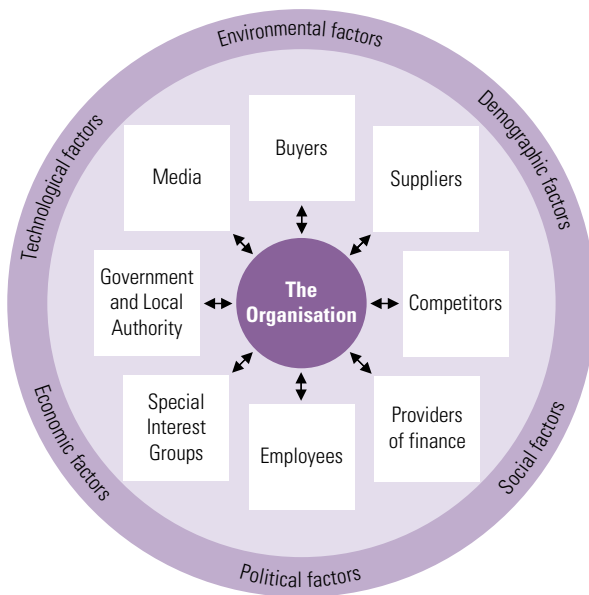
In addition, an organisation can be affected by environmental influences over which it does not have any significant control, but which are of high significance to the market. These aspects include economic development, technological development, climate, and demographic developments. These macro factor influences are called environmental factors.

Figure 1.1 shows the most important stakeholder and environmental factors that exert an influence on organisations.

Environmental influences

Environmental factors

FIGURE 1.1 THE ORGANISATION WITH SURROUNDING STAKEHOLDERS AND EXTERNAL FACTORS



Environmental influence generates circumstances which organisations must take into careful account. Many organisations find themselves confronted by extremely unstable circumstances which have to be dealt with appropriately and effectively – possibly in the form of significant changes to the products and or services offered, or a revision of pricing strategy to change the pricing position within the market. Other examples are changes in delivery methods, production processes, organisation size and structure, the location of premises, employee relations, and so on.

Directing an organisation by taking into account the influence of its surroundings is known as harmonisation or alignment. This chapter examines the influence that stakeholders and environmental factors have on organisations.

Harmonisation

1.2 STAKEHOLDERS

As indicated in the introduction, the most significant direct influence on organisations is exerted by stakeholders and surroundings. This section discusses the influence of the following stakeholders:

- buyers;
- suppliers;
- competitors;

- capital providers;
- employees;
- special interest groups;
- government and local authority institutions;
- media.

An important aspect of these parties is the extent to which their position is dominant.

Buyers

Buyers

Known alternatively as buyers, clients, consumers or customers, this is an important group as it is the one demanding products and services. An organisation gains its right to exist by its ability to satisfy these demands. Consumer demands often change and organisations must take these changes into account when determining the composition and features of their product range.

In recent years, there have been many new products introduced onto the market as a result of changes in buyer demands, ranging from new low-fat dairy products to electrical cars, environmentally friendly washing powders, smartphones, tablets, medical equipment, cloud computing solutions, battery switching stations for cars, and new forms of mortgage and insurance.

If an organisation pays insufficient attention to changing consumer needs, the existing available products may become less popular and, as a consequence, the organisation may lose customers. Customers therefore exert a critical influence on organisations!

Suppliers

Suppliers

Every organisation uses products or services from other organisations. Thus, as a buyer, an organisation imposes demands on its suppliers, with respect to quality, price level and delivery time. An organisation's own products and services are, after all, dependent on these aspects. In recent years, supplier relationships have undergone major changes. Increased international competition has, for example, caused many changes in the choice of suppliers. In the past, there was a preference for local suppliers – but now the recurring trend is for businesses to search for suppliers across national borders. Another aspect of these business-to-business relationships that deserves attention is that buyers now want to reduce their stock held, and demand 'just-in-time' delivery from their suppliers.

Competitors

Competitors

Almost every organisation has to deal with competition. Competitors more or less determine the amount of flexibility organisations have with respect to product features, pricing, quality, distribution channels, R&D activities, advertising budgets, and so on. It is therefore of vital importance to monitor the activities of major competitors and to analyse their relative market positions.

Capital providers

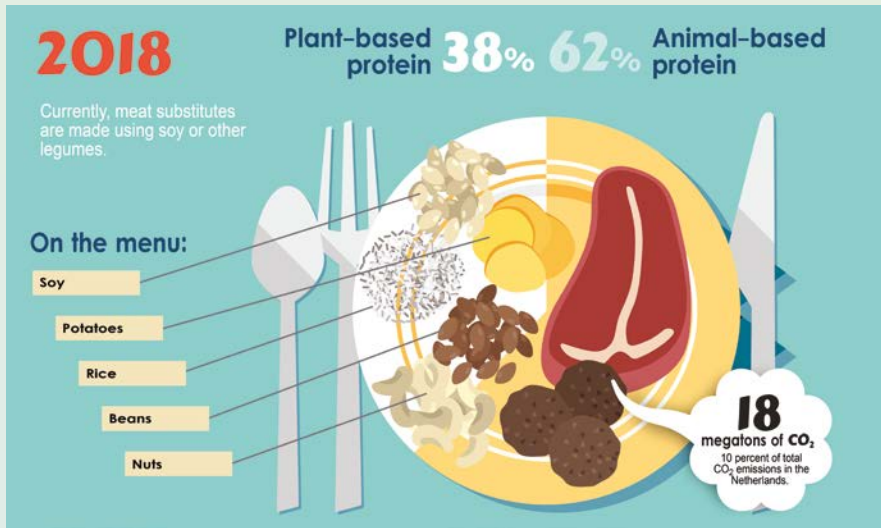
Capital providers

Organisations must maintain good relationships with financiers or capital providers, such as shareholders, financial institutions, and the government.

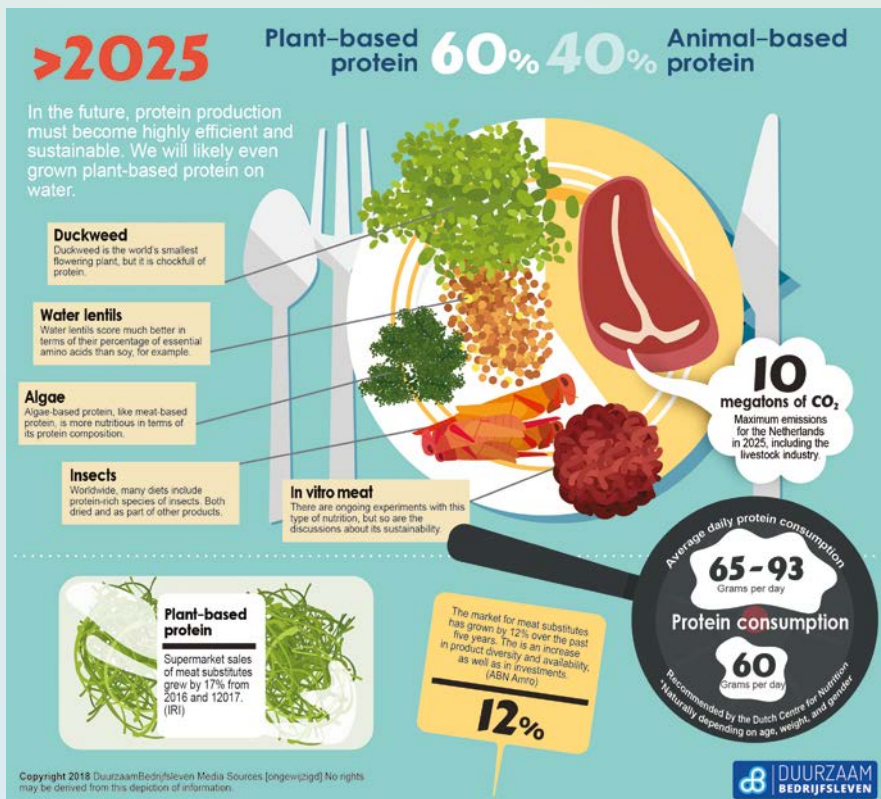
After all, an organisation is often dependent on finance to maintain its activities, expand operations and sometimes even remain in its existing form. Providers of finance who become dissatisfied with the performance or practices of an organisation can turn off the financial supply. This can create huge problems for

What will the future hold?

2018



2025



Source: Duurzaam bedrijfsleven, 2018

the organisation, and pose a potential threat to its survival. In large enterprises, major financiers are often represented by supervisory bodies, such as the Board of Commissioners.

Employees Cooperation and support

Employees

The employees of an organisation are its most important asset and can be seen as a critical success factor. The modern employees of the 21st century are more highly trained, liberated and individualistic than their predecessors. These employees play an even greater role in product and organisational innovations, as well as in quality improvement. Their cooperation and support influence the organisation's choice of direction, as well as its strategies in relation to social responsibility and social policy.

In other words, the employees are the players on the field who will need to gain the advantage over their competition; players that management definitely needs to take into account.

Special interest groups

Special interest groups

This group of stakeholders includes those bodies that focus on the interests of a particular group of people. Many such groups exist, and include employee and employer federations (for example, trade unions and national industry confederations), consumer organisations (homeowner's associations, car owners' associations), organisations involved in corporate social responsibility, environmental activists (Greenpeace), and other organisations targeting specific subjects (refugee relief, illness support groups).

Government authorities

Government authorities

The implementation of government policy is performed by government authorities. These authorities influence organisations through the application of legislation to the organisational field. An example is of police officers enforcing legislation with regard to opening and closing hours.

Media

Media

In the current information era, the media (including the Internet, newspapers, weekly magazines, television and radio) play a very important role. The attention of the media is directed at everything that takes place in society and has any meaning for the individuals in that society. Developments in the economy, politics and business are watched closely. International communication satellites ensure that people are informed almost instantaneously about events taking place as far away as the other side of the world – via, for example, the internet.

The role of social media, such as Instagram, Facebook, YouTube, LinkedIn, Twitter, and Snapchat, is becoming increasingly important. It is crucial for here to be continued critical review of the sources providing information, as 'fake news' is an increasingly prevalent phenomenon.

Public opinion

The media can have a big influence on public opinion. This has led to many organisations setting up public relations departments which work closely with the media to update them on their current activities.

Dominant position

Dominant position of stakeholders

The extent to which the above-mentioned stakeholders can exercise an influence on organisations is dependent on a number of factors. Of key significance is the

relative dominance that such groups have at any particular moment. Through their dominant position, they can exert tremendous pressure on an organisation in many ways, including withholding funding (financiers), halting deliveries (suppliers), boycotting (customers), other organisations in the market promoting their activities (competitors), placing the organisation in a very negative light (media), or instigating industrial action, such as a strike (employees).

It should be clear that no organisation can avoid dealing with the stakeholders in its environment, and that organisations must ensure that their relationships with these parties are maintained at the best possible level.

1.3 EXTERNAL FACTORS

While external factors exert an indirect influence on organisations, organisations can only influence external factors to a limited extent. However, external factors are crucially important in determining the success of organisations. The following sections discuss the external factors listed here in greater detail:

- environmental factors (subsection 1.3.1);
- technological factors (subsection 1.3.2);
- demographic factors (subsection 1.3.3);
- economic factors (subsection 1.3.4);
- political factors (subsection 1.3.5);
- societal factors (subsection 1.3.6).

1.3.1 Environmental factors

A clean living environment and a healthy climate are important elements of a healthy economy. Vital natural capital, after all, is an essential production factor and represents significant economic value. It has been irrefutably shown that there have been significant manmade changes to the climate, and limiting any further changes requires a strong climate policy.

Climate change is a global issue, one that is not limited to the Netherlands, but also involves its most important trade partners in and outside of Europe developing their own climate policies. Collaboration with likeminded nations can help to speed up developments and get a running start to stay ahead of the rest of the pack, which will eventually also make the transition to more climate-centric policies.

Signatories of the 2015 Paris Climate Treaty agreed to limit global warming to less than 2 degrees Celsius compared to the pre-industrial era. The actual target is an increase of no more than 1.5 degrees. Another factor is a rapid reduction to zero of the use of fossil fuels, as this constitutes a major cause of excessive carbon emission levels. The accord requires member states to draft national climate plans (National Determined Contributions), which must be ambitious and must increase in ambition with every new plan. The accord also documents that it expects signatory nations to financially support developing countries in reducing their emissions. The accord concerns the period from 2020 onwards, and was to be implemented only following ratification by 55 countries, who contribute 55% of greenhouse gasses to total emission levels. The Treaty was ratified unusually quickly: The Netherlands ratified the accord in July of 2017. By now, 195 countries have signed the Treaty.

External factors

Climate change

Paris Climate Treaty



Coal usage in Europe

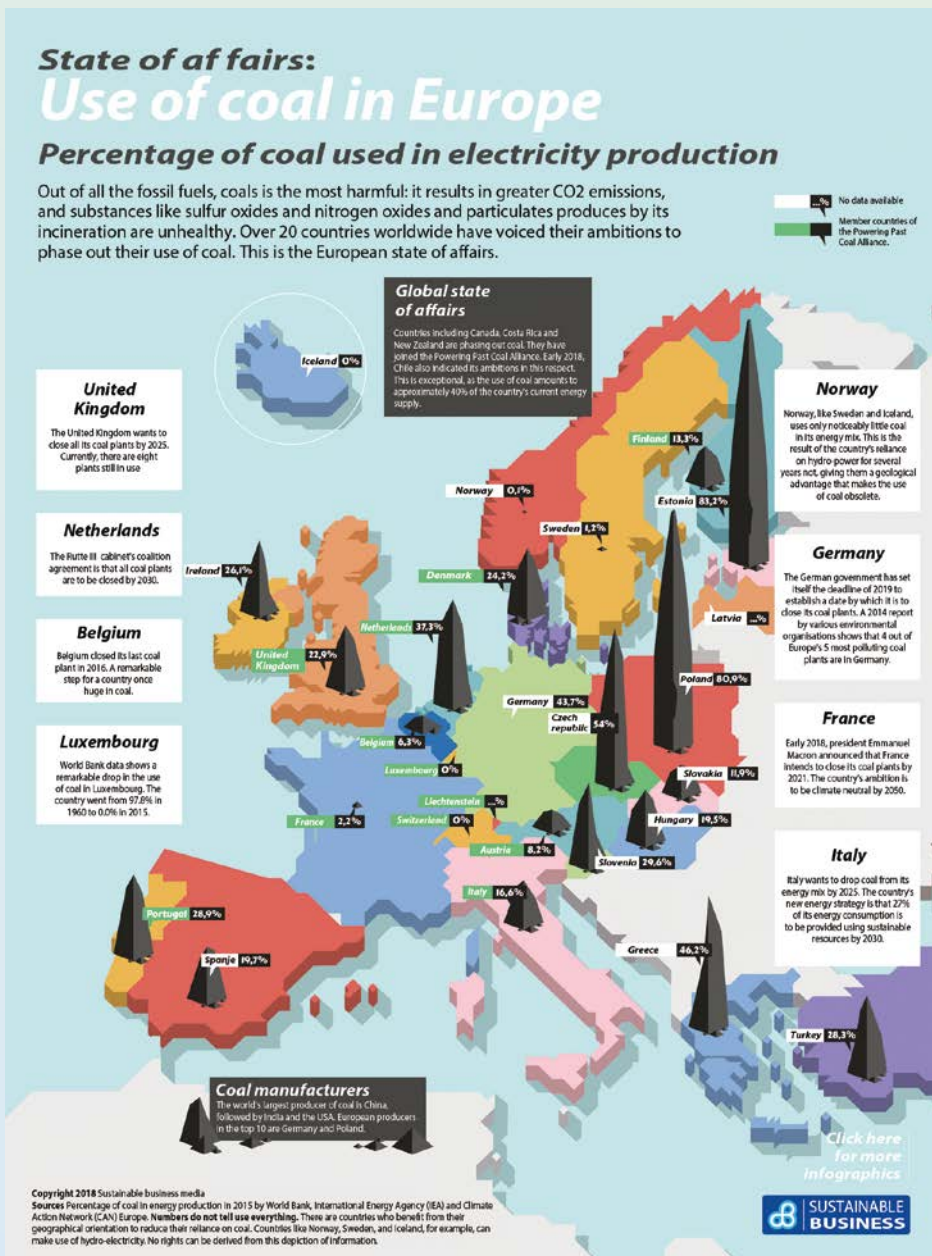
Of all the fossil fuels, coal is the most harmful: it contributes most in terms of emissions, and the harmful substances released when it is incinerated, such as sulfoxides, nitrogen-oxides, or particulates, are detrimental to one's health. Over 20 countries worldwide have voiced their ambition to phase out the use of coal.

Current situation in Europe

- **United Kingdom:** wants to close all coal plants by 2025, currently 8 in use.
- **The Netherlands:** wants to close all coal plants by 2030, which is the target of the Third Rutte Cabinet.
- **Belgium:** saw its final coal plant closed in 2016, which is quite a feat for a nation in which coal saw significant use.

- **Luxembourg:** decreased the use of coal from 97.8 % in 1960 to 0% in 2015.
- **Norway:** like Sweden and Iceland, reduced dependency on coal through hydropower.
- **Germany:** is looking to announce a date for shutting down its coal plants. 4 of the 5 of Europe's most polluting coal plants are found in Germany.
- **Italy:** wants to remove coals from the energy mix by 2025.
- **France:** wants to shut down all coal plants by 2021.

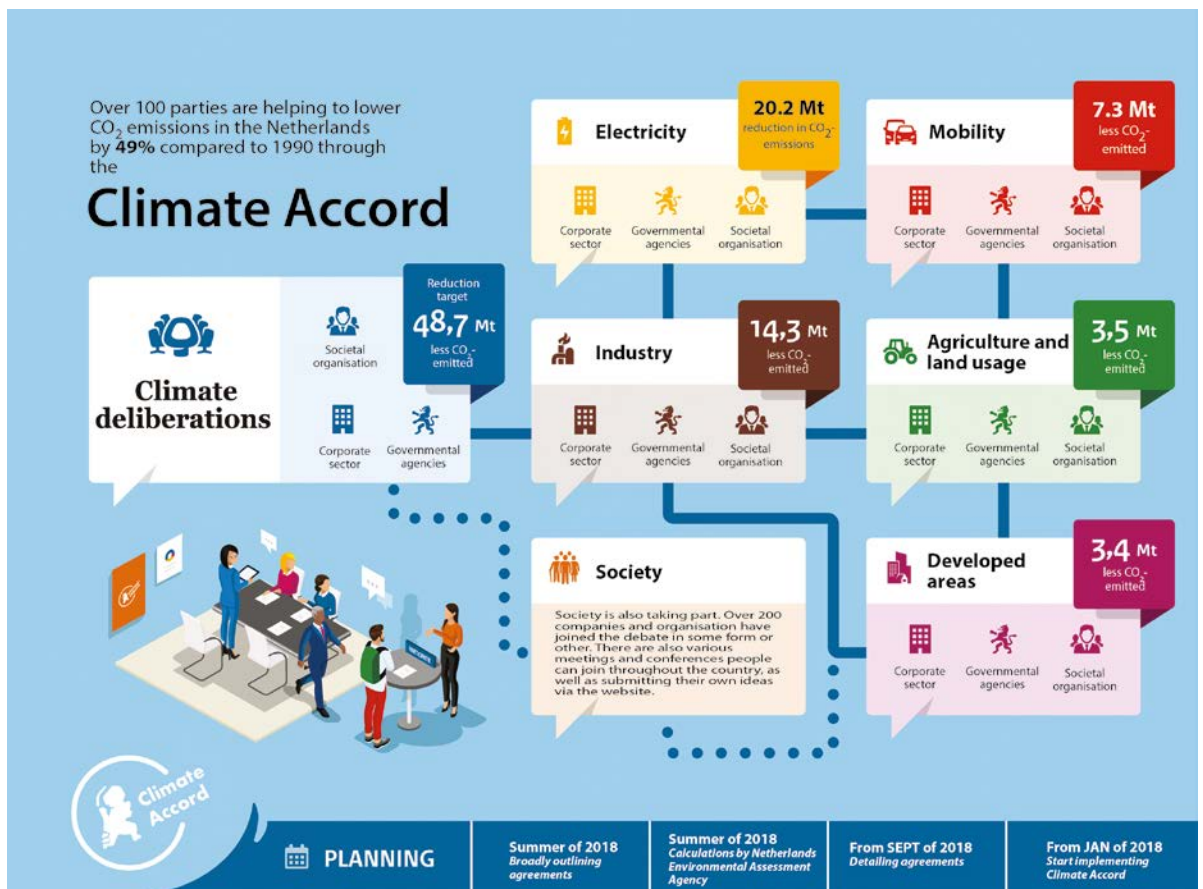
Source: *Het Financieele Dagblad*, *Duurzaam Bedrijfsleven*, nr. 14 2018



In June of 2017, president Trump announced that the US would be withdrawing from the Accords. Formally speaking, this withdrawal cannot take effect before November of 2020. From 2023 onwards, a worldwide evaluation (“Global Stocktake”) into (the reduction in) emissions will be scheduled every five years. One of the weaknesses of the Accords is that signatory nations determine their own climate objectives. Another shortcoming is the fact that no mention is made of aviation or shipping. The Accord, while binding, is not subject to any form of sanctions.

In a follow-up to the Climate Accord, seven Dutch political parties signed a national climate accord in July of 2018. The Netherlands used reports by IPCC (Intergovernmental Panel on Climate Change) as the basis for its climate policy. The most important goal is a 49% reduction in the emission of greenhouse gasses by 2030 compared to the emission levels in 1990, followed by a 95% reduction in 2050. In addition, the cabinet’s European approach may lead to a further reduction, coming to 55% instead of 49% in total. Excess greenhouse gasses (particularly CO₂) cause climate change, with major repercussions for plant-life and wildlife, harvest, and water levels. This also has substantial consequences for humanity. One example is a further increase in draught levels in parts of Africa, resulting in a reduction in quality of life and forcing emigration to other countries.

Greenhouse gasses



Source: Ministry of Economic Affairs and Climate Policy (Netherlands), 2018

Governments, businesses, and societal organisations have made agreements and submitted proposals for achieving the established target in five different areas. These areas and the reduction in CO₂ discussed are:

- 1 housing (reduce emissions by 7%);
- 2 electricity (reduce emissions by 41 %);
- 3 industry (reduce emissions by 29%);
- 4 agriculture (reduce emissions by 7%);
- 5 mobility/transport (reduce emissions by 15%).

Housing. With regard to housing, proper insulation and the use of a sustainable heat source make this aspect the responsibility of all residents of the Netherlands. The Netherlands plans to shut off access to natural gas by 2050, and wants to ensure that 2 million homes are 'gas-free' by 2030. Gas taxes will gradually be raised, while taxes on electricity will gradually be lowered.

Electricity. A free electricity system is the ultimate goal. To that end, it is imperative that the switch from fossil fuels to sustainable energy is implemented quickly. Windmills are intended to provide a major contribution; there are to be additional windfarms in the sea, and windmills on land complemented with solar panels are intended to provide the remainder.

Industry. Electrification, a more efficient use of heat and warmth, and the reusing of resources are important ways of achieving the target. This aspect requires innovation and collaboration between countries.

Agriculture. Agriculture also needs to limit its emissions, for example through the reduction of methane output in the meat industry, improved use of land, restricting the use of fertiliser. An important contribution is to be made by the greenhouse and horticultural industries, for example through the use of geothermal power. In terms of food consumption, a shift from animal to plant proteins is needed.

Mobility. Electrically powered driving is a promising development in the field of mobility. Public transportation must become cleaner, and encouraging the bicycle as a mode of transport must become a priority.

Transition

The central aim of the Climate Accords, namely to reduce greenhouse gas emissions, touches on everyday life: how people live, get around, and earn a living, what they eat and buy, etcetera. Therefore, the transition is first and foremost a societal one. This transition also offers opportunities for new industry. Energy and climate ambitions will be accompanied by a strong shift in the demand for labour, and will require new skills. Government and business investments will be needed to realise the energy and climate ambitions. Civil willingness is crucial, and requires a reliable and consistent government to indicate clear directions and frameworks.

Strategic fields of interest

The environment is now seen as one of the main strategic fields of interest during the coming years. The environmental challenge for organisations has three dimensions:

- 1 **Cleaning up current activities.** It is vital that organisations discover and monitor the effects their activities have on the environment so that they can then begin to introduce environmental care.
- 2 **Utilising new opportunities.** Organisations are able to enhance offers of future products and services by repairing past environmental damage and by working to deliver new product versions developed using environmentally friendly processes.

3 Working on a sustainable future. Organisations must undergo radical changes to ensure a sustainable future. To put this into practice, management needs to develop a vision that utilises the new opportunities.

1.3.2 Technological factors

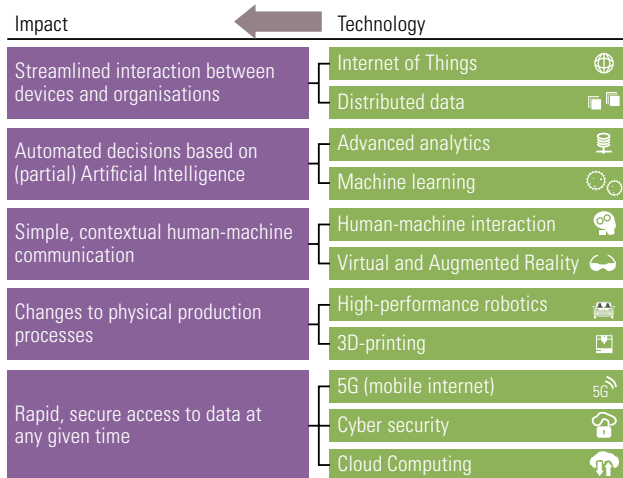
In the knowledge-intensive Western society, technological developments are essential for the internationally competitive position of its business life. Technological development is often called the motor of its economy. Thanks to technological development, there is continuous improvement of production methods and innovation of goods and services. As a consequence, the lifespan of existing products is continually shortened.

Technological development is pre-eminently a market-driven activity. Important stimuli for technological innovation come from competition, and the demand for more environmentally friendly goods and services of a higher quality, with a lower cost price, which can be delivered faster and more conveniently.

In the coming years, technological developments will continue at a similar pace to today. Major technological changes and successes can be expected in the areas of artificial intelligence, network speeds (5G), energy transition, biotechnology, information technology, and robotisation (automation). New technologies are expected to have a positive impact on organisational results. Chapter 3 on Digital Transformation offers greater detail and insight into the influence of new (disruptive) technologies on organisations.

Technological developments

FIGURE 1.2 TECHNOLOGICAL TRENDS WITH A POSITIVE IMPACT ON ORGANISATION, AS PER RESEARCH RESULTS BY MCKINSEY AND GOOGLE



Source: *Shaping the future of work in the Netherlands*. McKinsey & Company, 2017

Biotechnology refers to living organisms. Biotechnology is an industry dedicated to the development of products for the nutritional industry (yeast extracts for bread and baked goods, beer, wine, and fruit juices), the pharmaceutical industry (medication, such as penicillin and growth hormones), agriculture (genetically enhanced livestock), cosmetics (creams, perfumes), and laundry (enzymes in detergents).

Biotechnology

Medical Aid Tattoo

Wearables have been making a steady rise over the past years. The small devices, in the form of watches, computer chips, or glasses that are worn closely to the body are becoming increasingly popular. Even though they offer benefits in the form of insight into or even improvement of behaviour, performance, or health, their main problem is that they are often cumbersome and subject to poor battery life. MIT and Harvard have now come up with a less intrusive form of wearable: the technological tattoo. Researchers have developed an ink that acts as a carrier for nanoparticles which function as sensors that change colour if their readings offer cause for alarm.

Depending on one's condition, the wearer can choose either long-term or short-term ink. Athletes who only want to keep track of their blood values over the course of a match can opt for a relatively short-lived tattoo. Diabetics and long patients may choose a more permanent tattoo that can be worn to monitor their insulin or oxygen levels for many years. Those that are uncomfortable with the idea of a visible tattoo have the option of an invisible ink that only shows up under a specific type of light. Visible results and measurements can be forwarded to a smartphone or computer, so that a doctor can keep track of a patient's medical condition at a distance.

Source: *Het Financieele Dagblad* Weekend, 2 June 2018

The MIT/Harvard tech-tattoo changes colour to inform the wearer of medical issues.



Information Technology

Information technology is concerned with the application of micro-electronics, and deals with saving and adapting information. Information can be seen as the lifeblood of the modern organisation. Some examples of products in the field of information technology are hardware (computers, tablets, smart phones, switchboards, etcetera), software (programming), communications networks, and intelligent computer chips.

The price/performance ratio of IT related activities is expected to fall by 20 percent to 30 percent every year. Consequently, investing in information technology will become progressively cheaper.



Robotisation or automation is the term for having robots perform work that is being carried out by people. Examples abound in the production industry. Nowadays, assembly-line activities are mostly performed by robots. Other applications include domestic robotics involved in vacuuming, mopping, or cutting grass; aerial reconnaissance using unmanned aircraft (drones); and performing laparoscopic surgery, with instruments entering the body under the guidance of surgeons who controls the implements remotely. Call centres now also frequently use ChatBots (intelligent robotics) that assist customers with a variety of questions and activities.

Developments in information technology will exert a big influence on all organisations in the coming years. The main consequences of this will be:

- a** fundamental changes in the way work is done;
- b** integration of functions;
- c** changes in economies of scale and decision-making.

Fundamental changes in the way work is done. Increasingly, communications networks are being installed within and between organisations and countries. One consequence is a reduction in 'time and distance'. As an example, financial transactions can be carried out from virtually anywhere in the world. Orders can be placed directly with producers from anywhere in the world at any time. The same goes for booking flights. Organisations can also quickly gain access to all sorts of information through electronic data banks.

Integration of functions. Through the expansion of communication networks, relevant information can be made available in the right form, at the right moment, and in the right place. There are three different identifiable categories of function integration:

- 1 Within the organisation.** Within an organisation, various divisions can communicate with each other and exchange information because they are connected via a local communication network.
- 2 Between organisations.** In this case, different organisational divisions are connected to each other electronically. For example, a customer's purchasing department can be electronically connected to a supplier's dispatch department.
- 3 Electronic markets.** In this form of electronic integration, there is coordination between organisations that operate in an open-market situation. For example, travel agencies can electronically search for the cheapest flight to a destination and perform business transactions with any airline.

Since the end of the 1990s, the Internet has been seen as the international 'electronic superhighway' and has made all public information accessible to everyone. Many businesses have developed so-called 'self-service facilities' for their customers, and virtually any product can be purchased in a webstore. Webstore turnover has grown spectacularly over the past years, and is expected to continue to do so in future.

Changes in economies of scale and decision-making. Organisations spend much of their time on aligning activities between employees. This involves discussion and the exchange of written information. With developments in information technology (communication networks within and between organisations), coordination costs can be dramatically decreased. Smaller organisations will also be able to benefit, and will therefore be able to enjoy the advantages of more flexible and less costly production processes. Information technology leads to a faster dissemination of information, which opens the door to faster decision-making.

Technological developments generally result from research carried out by universities and technical institutions, as well as R&D (Research & Development) departments in large businesses. A lot of resources (financial and otherwise) and effort are needed for these R&D activities. In this respect, because of their bigger capacity, larger businesses therefore have a clear advantage over smaller ones. Within larger businesses, R&D expenditure can be spread across a broad range of product groups. Small and medium-sized organisations simply cannot afford such expenses on their own. For this reason, it is quite common for a Ministry of Economic Affairs to support small and medium-sized businesses by offering subsidies and know-how.

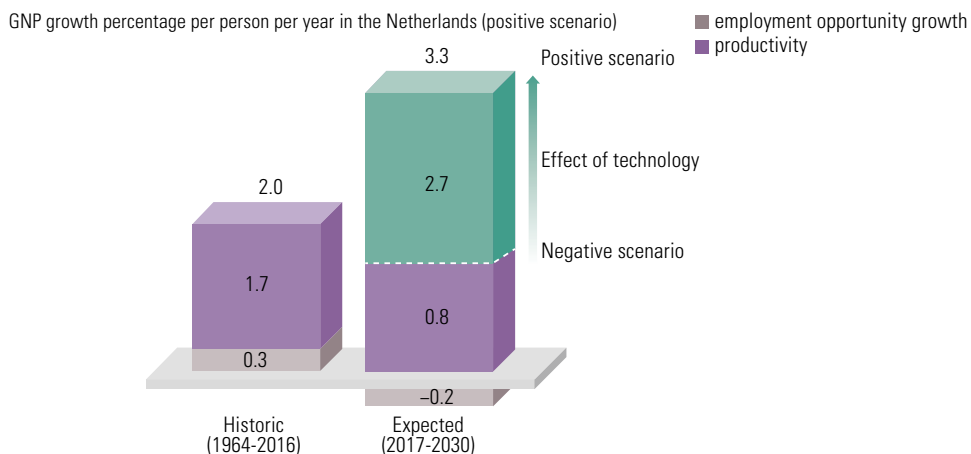
Fundamental studies

However, the size of the R&D budget is not necessarily an indicator of the potential success of a business; the way in which technology is implemented and renewed within operations in comparison with competitor activity also plays a key role. A flexible, efficient, and goal-orientated way of operating within organisations is required. Experience shows that the successful implementation of new technology is rarely easy. Problems with technological implementation are often not of a technical nature, but linked to human issues.

For technological development to be successful, it is vital that the technical experts are knowledgeable about marketing and business and that marketers and business experts understand the technical aspects.

Lastly, technologies have the potential to improve productivity at the cost of employment opportunities.

FIGURE 1.3 THE EFFECTS OF TECHNOLOGY ON ECONOMIC GROWTH AND EMPLOYMENT OPPORTUNITIES IN THE NETHERLANDS



Source: *Shaping the future of work in the Netherlands*. McKinsey & Company, 2017

1.3.3 Demographic factors

Demographic factors

Demographic factors are defined as the size, growth and composition of a population. To a large extent, these factors determine which markets an organisation targets and which products and services it offers.

In 1795, at the time of the first national census, the Netherlands held slightly over two million residents. The third million was reached around fifty years later, in 1843. Just prior to the turn of the century, the country hit five million – ten million was reached only fifty years later, in 1949. It took only seven years to go from one million to the next. At the time of writing, the population of the Netherlands numbers around seventeen million inhabitants. Nowhere else in Europe has population growth been as pronounced over the past century.

The growth of the Dutch population is determined by various factors, the two most important of which are a high birth rate and a high migration balance.

The composition of the population is also set to change, due to the increase in the number of immigrants, who account for an important contribution to Dutch population growth. Whereas, in 2003, one in ten Dutch residents was a non-

No chance of a 'war for talent' for now

The decline in the percentage of Dutch professionals after 2024 is expected to be less severe than has previously been anticipated. A shortage on the labour market, or 'war for talent', is extremely unlikely.

Up till 2023, the potential professional population is expected to grow by 4.2%. This increase is largely the result of the increase in the national retirement age. The most pessimistic scenario involves a decline in the professional population, but other scenarios only expect this to happen as late as 2027 or 2032. In fact, an opposing development seems likely if the professional population continues to grow compared to 2012.

Reports of a 'war for talent', resulting from a structural shortage of professionals, are premature at the very least.

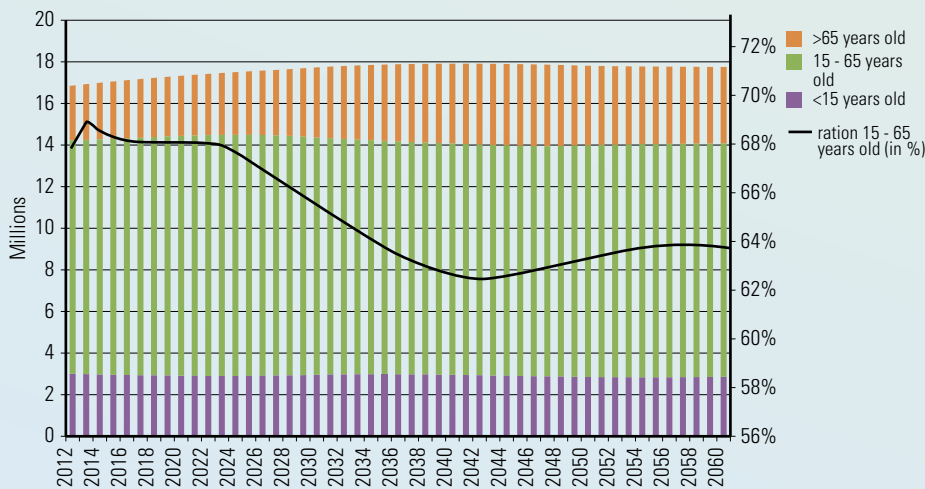
In the longer term, the professional population will experience shrinkage: the retirement measure will lose its

effectiveness, and the other age groups will reach maximum possible participation. In that case, shrinkage would begin to occur around 2030. Yet, a structural deficit does exist for some occupational groups; this is the result of a mismatch between supply and demand on the job market, and less the effect of the aging of the professional population.

Economic recovery (up to 2024) may result in an increased demand for workers. Depending on the rate and duration of this recovery, demand may begin to exceed supply – the sort of situation that would result in tension on the labour market, similar to the period before the financial crisis. However, speculation into these developments is highly uncertain.

Source: *Het Financieele Dagblad*, 6 January 2014

FIGURE 1 DEVELOPMENT OF DUTCH POPULATION AND SHARE (IN %) OF POTENTIAL PROFESSIONAL POPULATION INCLUDING INCREASE IN AGE OF ENTITLED RETIREMENT, 2012-2060

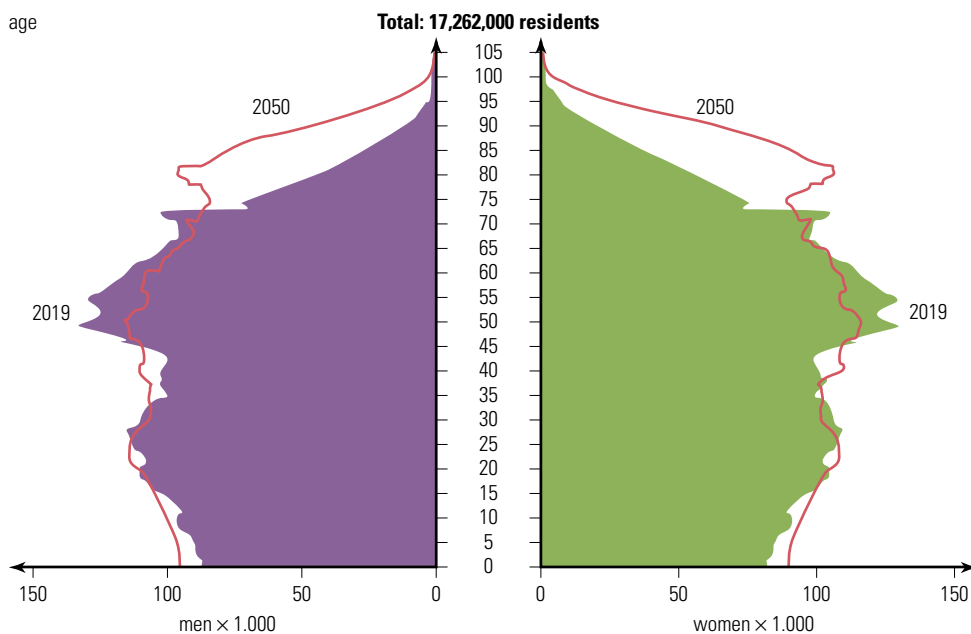


Source: CBS, RecruitmentLab

Western immigrant, this figure will have doubled by 2050. The fast-growing immigrant part of the population may be able to reduce the expected structural shortage on the labour market to an important degree.

Apart from population size, age structure will also see a significant change in the future. Key changes occur in the group from middle to advanced age. The age pyramid will be slimmed down around the middle aged population, and gain size around the advanced age population as a result of aging (see Figure 1.4)

FIGURE 1.4 AGE DISTRIBUTION IN THE NETHERLANDS BETWEEN 2019-2050



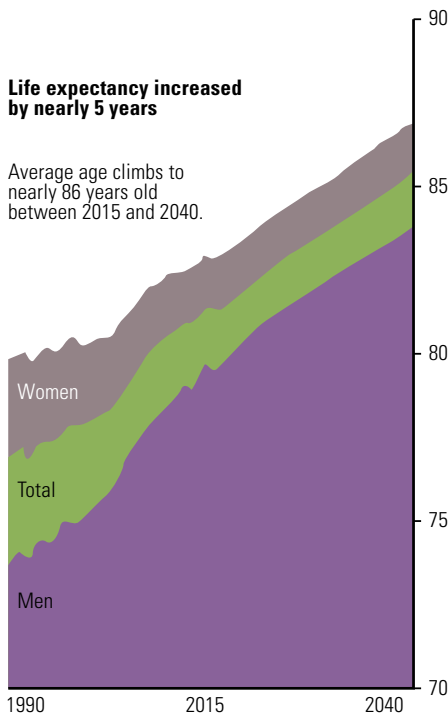
The number of births over the coming years is expected to decline as a consequence of the smaller sizes of the generations able to have children (caused by the decline in birth rates in the 1970s). This decline is virtually fully compensated for by an increase in the advanced age group. Life expectancy of both men and women, currently at 75.5 and 80.5 years old respectively, is expected to increase, due to the fact that more people are reaching an advanced age, and that people live even longer. In a number of Western countries, an expected 50% of all children born after 1997 will reach an age of well over 100 years old.

In future, the difference in life expectancy between men and women as the result of, for example, differences in smoking behaviours is expected to decline. Despite the expected increase in life expectancy, an aging population will result in a higher number of deaths over the coming decades.

An aging population comes with an increase in collective expenditure. On the other hand, there is a positive influence on government income. It is usual for there to be a positive relationship between work income and age. Studies by the Dutch CBS statistics agency show that income from direct taxation (mostly from income) is increasing, as a result of the growth and increasing average age of the population. If labour participation in the Netherlands were to rise to the level that is average among OECD countries (Organisation for Economic Collaboration and Development), it would also come with a major positive effect – the increase in the income from taxation would be nearly twice as high.

Senior citizens The bottom age level for the classification of 'senior citizen' is set at fifty years old, at which age a number of changes occurs. Children are leaving the nest, or planning to do so soon; there is time for reflection and new activities; there is more free time; and there is a higher chance of contracting health complaints. This results in a different daily schedule and changes in time management. Modern senior citizens often (re-)enrol in school, are well-represented in the political arena, have an extensive social life, work out, and do not let others tell them what to do. The 50+ age group

FIGURE 1.5 AGE DEVELOPMENT



Source: RIVM, 2018

usually goes on holiday independently, is not afraid to stray further afield, is highly enterprising, and dares to be demanding in terms of price, quality, and comfort. An increasing number of organisations are discovering that seniors (those aged between 50 and 70 years old) are an attractive target group, with the highest household income. Research also indicates that seniors spend 80 percent. They also spend 40 percent more on food, 16 percent more on study and transportation, 75 percent more on domestic life and 50 percent more on personal hygiene and medical care. Demand for specific senior citizen products is expected to increase. In particular, products that provide security, that increase social contact, that promote an active and healthy life, that are part of leisure activity and hobbies, will all experience an increase in demand. It is also important to think about ways of tailoring products to this target group, for example products and services like travel (both within the country and abroad), special meals, clothing and footwear, housing, and social activities. Because senior citizens form a highly distinctive target group, they can also be viewed as a relatively complex one, one that raises a number of difficult issues for businesses of various types. How, for example, does one let senior citizens know that there is a product for them on the market without creating too much of a distinction with other groups, or projecting the image of being an 'old people brand'? What is the best tone to adopt when speaking to older people and should age determine communication strategy? The answers to these questions are essential when it comes to developing a competitive strategy for the senior market.

1.3.4 Economic factors

Economic factors play an important role in the success of organisations. Of eminent significance is the growth in national income. This growth generally leads to higher income for individuals, which then increases purchasing power. This leads to organisations that focus on the B2C (Business-to-Consumer) market enjoying

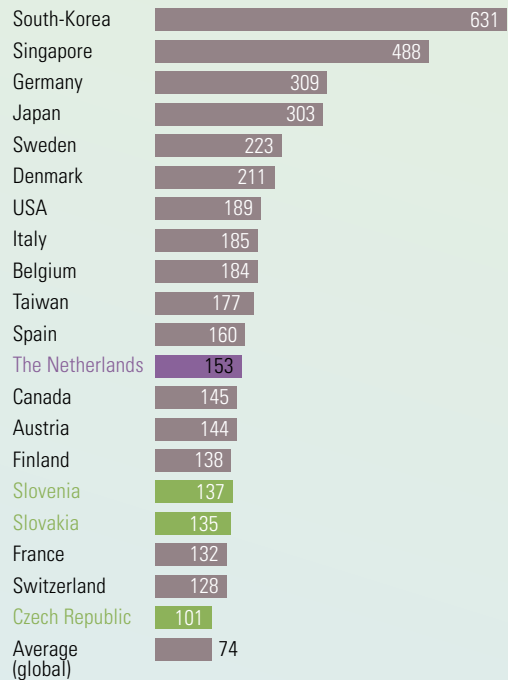
Economic factors
Growth in national
income

Eastern Europe investing in robots and migrant workers

Wages in Eastern European countries are rapidly on the rise as a result of shortages in the labour market. Bad news for businesses; they are under threat of being unable to complete their workloads. The expert answer, in addition to higher wages and immigrant workers: robotisation. The market is particularly stretched in Slovakia, the Czech Republic, and Slovenia. Car industry companies are beginning to see robots as an alternative to increasingly expensive labour. Workers from the Ukraine and Serbia are especially sought after by employers. Surprisingly, wage increases have only caused greater difficulties for the labour market: higher wages mean higher consumptive spending, which means greater economic growth, which means an increased demand for personnel. Technical professions, such as engineers, welders, fitters, and IT staff, in particular, are becoming more scarce in the job market, resulting in higher wage demands. Automation and robotisation can help shrink the labour shortage.

Source: *Het Financieele Dagblad*, 30 May 2018

FIGURE WHICH COUNTRY EMPLOYS THE MOST ROBOTS



Source: FD, 30 May 2018



increased turnover. Income distribution is another important factor. Changes in income distribution can have a significant effect on the size of some markets. It is clear that, for countries like the Netherlands, where a relatively large proportion (about 30 percent) of national income is dependent on foreign trade, international economic developments will also play an important role.

Some examples of key influencing factors are:

- a** economic growth in other countries;
- b** currency fluctuations;
- c** developments in interest rates;
- d** developments in foreign wage levels.

These factors are likely to have a big influence on the competitive position of Dutch enterprises.

Between now and 2040, more Dutch workers will be leaving the labour process than new ones will be coming in, due to the effects of aging. In addition, there is a qualitative mismatch between the people looking for a job and the labour market's needs. In order to adequately address the costs of an aging population, the Netherlands will need to rely heavily on highly trained, high-income talent.

An important stimulus for improving the economic situation is the investment in knowledge and innovation. In Lisbon and Barcelona, the European Union voiced the goal of wanting to become the most competitive knowledge economy in the world. To achieve this, it will be necessary for Member States to allocate at least 3 per cent of the EU's GNP (Gross National Product) to research and development activities. The Netherlands has voiced its intentions of being among Europe's top level, but the country's current investment level is estimated by many as being insufficient to reach this goal.

From its geographical and historical background, the Netherlands has always been strongly dependent on international trade and investments. These involve not only European developments, but also those on the global stage. Predictions on long-term global economic development are rife with uncertainty.

Drafting prognoses for both the Dutch and global economies is one of the core activities of the Dutch Centraal Planbureau (Central Planning Bureau). Prognoses are economic analyses which use available knowledge, information, and instruments (such as economic models) to draft a substantiated expected development. The CPB distinguishes between three temporal periods: short, medium, and long term.

An example of a long-term prognosis is the study 'Four Panoramic Views of the Netherlands', which discusses four scenarios up to 2040. Dutch policy is faced with a number of strategic challenges which will have great significance for long-term economic perspectives. There is great uncertainty with regard to the coping strategies for future bottlenecks and to the expected economic backgrounds. The four scenarios offer a quantitative analysis at the national level for different industries. There are major differences between the Dutch scenarios. For example, GDP per head in 2040 will be between 30% and 120% higher than at its current level. The high-growth scenarios do present an image of extensive income inequality and poorer environmental conditions. Aging represses the growth of labour and employment, as well as the ratio between the active and the inactive across all scenarios. The distribution of employment opportunities across the industries continues to shift, particularly away from agriculture and industry towards services and care. This development has been going on for decades. Information about the scenario study can be obtained from CPB's website.

Income distribution

International economic developments

Globalisation

World Trade Organisation (WTO)

Based on centuries of experience, Dutch trade politics focus on economic systems and optimised free trade. At the same time, the Netherlands, being a relatively small country, recognises the need for international trade legislation to ensure that the global economic stage does not descend into dog-eat-dog practices, but adheres to international treaties that are respectful of the interests of all parties involved. Growing globalisation means the importance of such a legal system becomes even more important.

All this in mind, the Netherlands encouraged the establishment of the World Trade Organisation in 1995. A relatively young organisation with over 164 member states (2018), it has the potential to develop into the lynching pin of the multilateral trade system, in part due to its system of enforcing binding dispute settlement. Therefore, the Netherlands considers the institutional reinforcement of the WTO, in addition to the continuation of the trade liberalisation with respect to industrial products, services, and agricultural products, an important goal for the WTO for the coming years.

The WTO has been given two other fundamentally important tasks. Firstly, it has been charged with further integrating developing countries – especially the ELDCs (Economically Least Developed Countries) – in world trade and in the work of the WTO. The second task is to look at the relationship between trade and important themes like the environment, food safety and working conditions.

A study by the World Bank found that the removal of trade barriers in developing countries would raise income by about 500 billion dollars. Furthermore, research has shown that trade liberalisation since World War II has contributed to lifting billions of people out of poverty. Although the exact figure is disputed, it is accepted that the advantages of trade liberalisation are enormous.

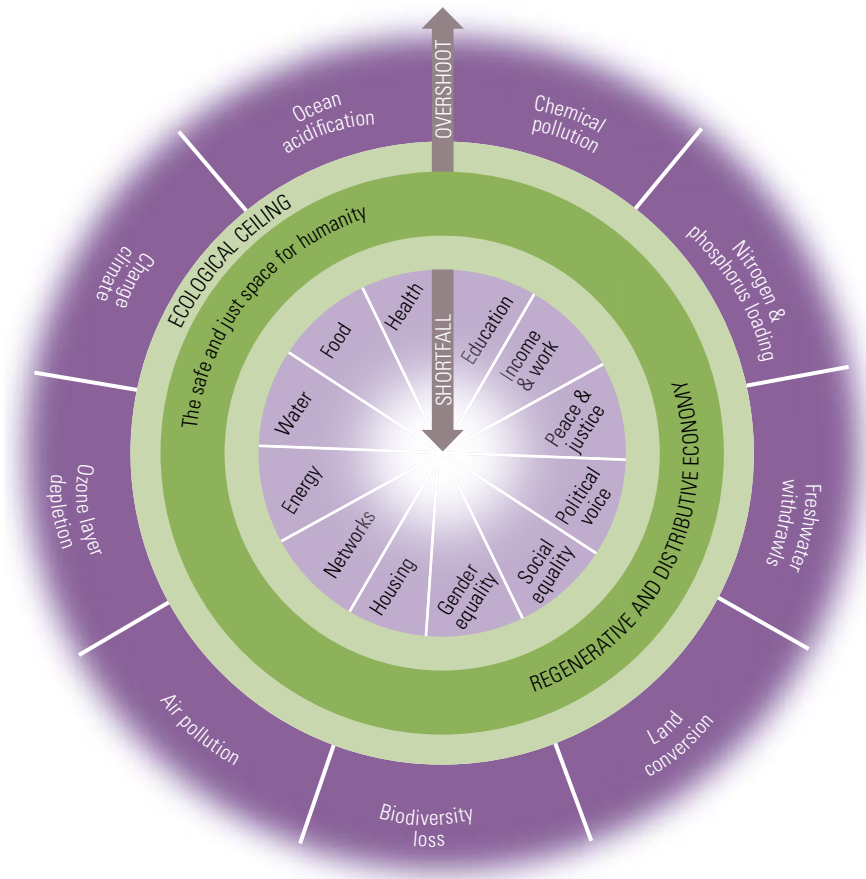
Economic growth

The emphasis of modern economics has always been on economic growth.

Increasingly, opposing forces question this ideal, because past economic growth has led to detrimental effects to the planet's environment and habitability. In her 2017 book 'Doughnut Economic', Oxford economist Kate Raworth argues in favour of discarding the idea of infinite economic growth. Instead, the focus should be on a completely circular economy. Her new economic model looks rather like a doughnut, and balances essential human needs and planetary boundaries. Instead of focussing on economic growth, economists should concern themselves with issues of access to basic needs across the world, such as adequate food, education, safety (human rights), and health. At the same time, the possibilities for future generations should not be impaired. The ecosystem must be protected. There must be a balance between the ecological upper tolerance level and the social bottom level. Raworth's model imposes strict restrictions on growth, and sends a confrontational message to policy makers and economists who see economic growth as the basis for a healthy system.

The outer circle is based on the Planetary Boundaries Framework by the Stockholm Resilience Centre, which was not developed by economists but by physicists. It represents the biosphere in which an economy exists, and includes climate change, freshwater use, and ocean acidification. The model focusses on planet over market. According to Raworth, this must become the basis for economic philosophy in the 21st century. Progressive companies should lead the transition, particularly companies in the food industry. Food influences all nine planetary boundaries (see

FIGURE 1.6 THE DONUT: A COMPASS FOR THE TWENTY-FIRST CENTURY



Source: *De Donuteconomie*, K. Raworth, 2017

Figure 1.6). If food could be harvested in a more sustainable manner, it would have an enormously positive impact on those boundaries, says Raworth.

Raworth sees shareholders as the biggest threat to companies looking to integrate the donut model into their business model. Companies can adapt their vision, policy, and network to improve their positive impact on the planet – but in the end, what matters is who owns the company. Listed companies depend on their shareholders, who strive for short-term financial gain. A long-term vision is of great importance when it comes to enabling a mentality shift. Politicians, in particular, find the doughnut model to be appealing: inclusive growth, sustainable growth, and resilient growth in order to enable economic progression – a new vision of the definition of wealth. The question is, however, whether these insights are shared by the population groups needed to vote for these political ideals.

1.3.5 Political factors

Governmental authorities use their political powers and responsibilities to try to steer their economy in a favourable direction. For example, governments influence price levels, the distribution of income, the job market, the balance of payments and therefore economic growth.

Political factors

In past years, there has been an increase in the level of political influence exerted on national economies from outside bodies. Within Europe, this influence has been brought about by the removal of borders between the Member States of the EU (European Union) in line with their goal of creating a single internal market. But there is also a call to limiting European power, particularly prevalent among populist parties. Brexit is a clear example of this.

The unification of Europe and a shift in political power are factors which are likely to challenge organisations in the near future. When talking about unification, it should be understood that an economic union can only be created by having the Member States merge their national economic and political institutions to a large extent. In general, five forms of economic integration can be identified. Arranged according to increasing levels of integration, these are the free trade zone, customs union, common market, economic union and complete political and economic union – all of which are briefly discussed below.

Economic union

Free trade zone

1 Free trade zone. Mutual trade agreements are entered into only by those countries that wish to participate. Each country determines their own import tariffs for products that are imported from outside the free trade zone. As a result, the trade policy for members is not harmonised. Certification of origin is therefore necessary to prevent products being imported via the country with the lowest import tariffs. An example of a free trade zone is NAFTA (North American Free Trade Agreement).

Customs union

2 Customs union. Here, a common trade policy is adopted. The revenue from import duty is divided between Member States using an agreed formula.

Common market

3 Common market. Based on a customs union, it removes the barriers in the field of production factors.

Economic union

4 Economic union. Economic union means that the monetary policy and financial government politics are also in harmony. This step requires that central institutions, such as a single Central Bank, be implemented.

Complete political and economic union

5 Complete political and economic union. This is the situation where independent states or countries merge completely. An example is the formation of the United States of America.

Within the European Union, there is a common internal market. This common market is based on four economic freedoms:

- 1 Freedom of movement of goods;
- 2 Freedom of movement of services;
- 3 Freedom of movement of capital;
- 4 Freedom of movement of people.

With further development of the common internal market and the formation of an economic block, Europe can improve its competitive position in relation to the other major economic power blocks of Japan, the United States and South East Asia.

The unification of Europe will have significant consequences for many organisations. It is anticipated that increased competition will put pressure on production costs, which in turn will lead to a fall in prices. Lower prices generate increased turnover, which leads to economies of scale, and possible business expansion. Larger scale production makes innovation and R&D expenditure viable which, of course, is likely to result in the production of goods that better meet customer needs and are easier to sell. It is a chain reaction that supports the strengthening of Europe's position in relation to its competitors.

Before Europe can really become a truly open internal market, a number of obstructions needs to be removed:

- a Physical obstructions.** Customs controls with their associated paperwork as well as delays at borders.
- b Technical obstructions.** Country-specific differences in production regulations, commercial law, and regulations designed to protect elements within the government procurement sector.
- c Fiscal obstructions.** The differences in sales tax (VAT) rates and excise taxes that result in a demand for inspection and clearance at borders.

Obstructions

Well over a third of the Netherlands' national income is earned by the export sector. Compared to other countries, this is a large share.

This means the competitive position of Dutch companies requires some attention. One advantage for the Netherlands is that its historically large degree of economic accessibility can offer advantages compared to other EU-member states.

In the year 2018 AD, there are 28 EU-member states. The member states and their years of accession are:

1952 Belgium, France, Germany, Italy, Luxembourg, and the Netherlands;

1973 Denmark, Ireland, and the United Kingdom;

1981 Greece;

1986 Portugal, Spain;

1995 Finland, Austria, and Sweden;

2004 Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, the Czech Republic;

2007 Bulgaria, Romania;

2013 Croatia;

2017 On 29 March 2017, the United Kingdom formally resigned its membership in a letter to the European Union.

Following the departure of the UK, there will be 27 member states in the European Union.

FIGURE 1.7 MEMBER STATES OF THE EU



Small to medium enterprise

In the past, Dutch organisations have gained much in terms of experience with aspects of international competition. Past evidence shows that 71% of Dutch export occurs within the European Union. Between 2008 and 2018, export to countries outside the EU grew much more rapidly than export within the EU. A separate aspect of the unification of the European market is the position of the small to medium enterprise (SME). SMEs are a major component of the Dutch economy. SMEs are defined as private companies of fewer than a hundred employees. Having more than a hundred employees means a company is qualified as large.

An important question to ask in relation to SMEs concerns the special opportunities and threats that they face in the new Europe. Turnover from Dutch SME mainly originates from the domestic market, even though nearly two in every three SMEs are internationally active. The highest percentage of profit obtained from clients abroad is realised within the European Union.

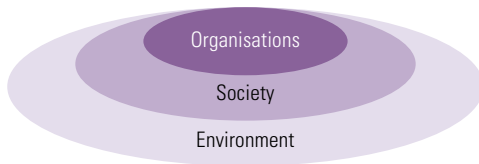
The next and obvious question is whether small and medium businesses will benefit optimally from the removal of internal borders. National enterprises that do not plan to expand into the new European market will, in all probability, be confronted by new competitors from elsewhere in the EU – competitors who have also decided to enter the national market. The competition faced by Dutch SMEs will therefore only increase. Due to the important position of SMEs in the

Dutch economy, an encouraging government policy is appropriate. As stated, trade within the ranks of the European Union will mean mutual trade restrictions can be foregone.

1.3.6 Societal factors

There is a societal need to try to exert an influence on organisations because of concerns about business activities, and such issues as environmental responsibility, noise pollution, ethical business and employee participation. Criticism has been levelled by various parties, including employees and local community groups. Such bodies often use the media to gain leverage and, in some cases, campaigns may lead to the introduction of new legislation.

FIGURE 1.8 ORGANISATIONS ARE A PART OF SOCIETY, WHICH IS PART OF THE LARGER ENVIRONMENT



Organisations are a part of society. Society is, however, broader and deeper than the elements that make up an organisation. Friends, family, sport, hobbies and religion are often at least as important for individuals.

In turn, a society exists within the natural environment. The basic needs of society, such as air, food and water, come from nature, as do energy, raw materials, transport and some products. In the past, natural environment was, to a large extent, the factor that determined what society looked like. Now, human activities are having an increasing influence on the natural environment.

Organisations are increasingly taking into account the needs of the society, and focussing on what is called social responsibility or sustainable business.

The idea behind corporate social responsibility (CSR) is that a company is part of a larger system. An enterprise is affected by its environment; for example, global warming can lead to failed harvests, scarcity of raw materials and, therefore, increased prices. Vice versa, a company can influence its environment if, for example, its factory emits toxic substances into the air during the production process. It is therefore becoming more common for companies to act responsibly, and to take into account human, environmental, and other external factors.

What is corporate social responsibility?

CSR helps companies to consciously form a clear picture of their own social responsibility in a way that goes beyond simple legal requirements. This leads to added value for both society and company. Corporate social responsibility is also known as sustainable business, derived from the concept of sustainable development; this concept was introduced by the Brundtland Committee in 1987. Through sustainable business, companies can make an important contribution to the sustainable development of society.

Environment



CSR

Sustainable business

How to improve your company's corporate social role?

1 Insight into employee commitment

An improved focus on sustainability contributes to employee commitment. Try to ascertain what knowledge employees have of social activities and the extent to which they themselves can contribute.

2 Improve customer-orientation

High customer-centeredness is often associated with strong employee commitment. This also offers a positive impulse to the company's market price.

3 Improve corporate social responsibility

Human Resource Development (HRD) can exert an influence on a company's corporate social responsibility by organising social projects. Company events can be given a societal theme which provides employees with new insights. Establishing corporate foundations with a common upheld goal is a frequently found initiative.

4 Develop talent

Talented employees can develop and display their competences through societal projects.

Outside of the regular context of fixed goals and agreements, qualities like flexibility, cooperation, stress-resistance, and creativity can be made visible.

5 Work on organisational culture

All of the aforementioned issues have an impact on the culture, norms, and values of an organisation – in particular, they have a formative effect on organisational culture. Working on organisational culture results in mutual commitment and offers handles for self-directing conduct.

6 Show your societal convictions

An organisation's societal profile is playing an increasingly important role in its employee appeal. Organisations should demonstrate what it is they stand for as much as they can.

Source: **Tijdschrift voor Ontwikkeling in Organisaties** (TvOO), nr.3 09-2017, Bas van Haastrecht: Wat niemand vertelt over ondernemen



A company that focusses on CSR no longer revolves (solely) around profit maximisation; instead, the focus becomes creating value – value for clients, employees, shareholders, the environment, the climate, and society. But what is the extent of this responsibility? What subjects should companies pay attention to? In order to establish exactly what companies are expected to do, it is important

that they engage with their environment. This is known as the stakeholder approach. Stakeholders are various groups of people who represent their own, others', or environmental interests in relation to the activities of the company across the chain. The stakeholders approach offers the possibility for stakeholders to exert an influence on company policy. Through dialogue with its stakeholders, a company can learn about the effects of its operational activities on certain groups. Stakeholders can be divided into internal stakeholders (employees, managers, shareholders) and external stakeholders (clients, suppliers, NGOs, civilians, governments, financiers) (see Table 1.1).

TABLE 1.1 RELATIONAL MATRIX WITH SEVERAL EXAMPLES OF NOTABLE ASPECTS WHEN COMPARING LISTED THEMES IN RELATIONSHIP TO STAKEHOLDERS

Stakeholder	Theme				
	Social	Cultural	Political	Ethical	Environmental
Customer			International relations	Cause-related marketing	Environmentally friendly product, recycling hallmarks
Supplier			International relations	Supplier selection (SA8000)	Supplier selection (use of raw/sustainable materials)
Employer	Employment opportunity, part time jobs, teleworking, child care, safety, health, wellbeing	Sports facilities, art, language education	Opportunities for political activity	Personal development, opportunity for participation in societal organisation, norms and values, minorities, discrimination	Use of energy, wastage, transport
Manager	Employment opportunity, part time jobs, teleworking, child care, safety, health, wellbeing	Sports facilities, art, language education	Income ratios	Personal development, opportunity for participation in societal organisation, norms and values, minorities, discrimination	Use of energy, wastage, transport
Financer				Prospectus (flotation)	Green banking
Competitor	Social covenants		Lobbying		Industry-oriented covenants
Government	Regulation/legislation, employment opportunity, safety		Urban policy, maintaining governmental relationships		Legislation/regulation, permits, environmental management
Education	Knowledge transfer (internships, guest colleges)		Aligning with education to support needs	Information	Information
Media	Information	Information	Information		Information
Interest groups	Social forum information		Information	Behavioural code, cause-related marketing, ideal advertising	Information
Local residents	Neighbourhood council, safety, knowledge transfer (company visits), sponsoring	Sponsoring		Behavioural code, integration of minorities	Emissions, waste management, disturbances
(Global) citizens	Knowledge transfer (conferences, publications), sponsoring	Sponsoring		Behavioural code	

CSR is a broad term, covering various topics. Societal elements within sustainable development can be subdivided into five themes: social, cultural, political, ethical and environmental. More specifically, climate change, biodiversity, employment, economic growth, human rights, environmentally friendly business, child labour, poverty reduction, and wealth distribution are topics that have taken on great importance where the sustainable development of society is concerned.

People, planet, profit

Companies that implement sustainable business models are more affected by changes within their surroundings when they adopt the so-called 'triple bottom line' approach to these social, environmental and economic aspects. In this context, we refer to three dimensions, specifically people, planet, and profit.

People

The way an organisation deals with socio-ethical issues falls into the 'people' dimension, which asks the question of how the company behaves towards its own staff and local community. Various areas are taken into account when answering this question, including respect for human rights, corruption and fraud, gender relations, diversity and discrimination, employee participation, codes of conduct, health and safety, training and development, and child labour.

Planet

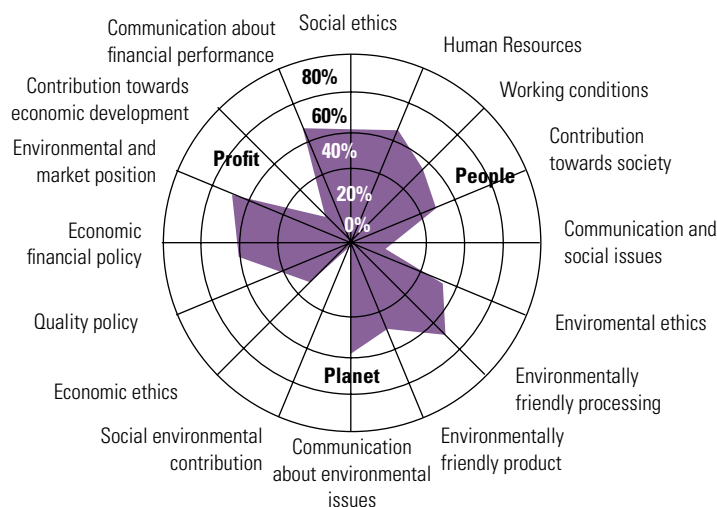
The 'planet' dimension looks at how a business interacts with its natural environment – from minimising damage to even benefitting the natural order. Current examples include waste chain management, eco-efficiency, cleaner production, sustainable technological development, sustainable industrialisation, reduction of energy and CO₂, etcetera.

Profit

The focus of the 'profit' dimension is not so much on traditional financial accounting, but more on the overall economic value generated by the business. It includes elements like employment opportunity, infrastructure investments, location policy, political commitment, outsourcing, economic effects of services and products. Sponsoring, employee participation, and profit appropriation are also issues assigned to this dimension.

Figure 1.9 demonstrates a sustainability scoring care: a 'report card' which visualises an organisation's score on various aspects of sustainability.

FIGURE 1.9 EXAMPLE OF A PEOPLE-PROFIT-PLANET SUSTAINABILITY SCORECARD



Source: <http://www.duurzaamondernemen.nl>

There is no single right way of being corporately socially responsible and every company has to determine which CSR activities are most appropriate for its own set of circumstances. Variables include industry size, company culture, and selected strategy. Importantly, CSR is a process and not a final destination. An organisation's goals can change over time as a consequence of various internal and external factors. As such, how can a company make the right decisions in pursuit of corporate social responsibility? One way is to incorporate a process based on the so-called plan-do-check-act-cycle. This four-stage plan helps companies to make choices about corporate social responsibility, and to set up and implement a suitable CSR policy. See Figure 1.10 for the four steps: Analyse, Policy, Implement, Evaluate.

FIGURE 1.10 A DIAGRAMMATIC PRESENTATION OF A CONTINUOUS FOUR-STEP PLAN



Following the analysis phase, which offers a company insight into societal developments in its environment, its image, and the expectations of relevant stakeholders, the company drafts its mission and vision statements, and aligns or integrates these with the existing mission or vision. This helps to clarify the company's position and goals with respect to CSR.

Next is the policy phase. Company policy must be in line with the general entrepreneurial policy. A number of important principles need to be detailed, including performance indicators, which can be used as the basis for setting objectives. Next comes the creation of a strategy, along with an action plan to ensure that the objectives are met. This is followed by the implementation. Specific projects should be set up to develop various key business processes. This may require additional staff training and guidance, and it is essential that clear communication and appropriate support are ensured. To ensure success, senior management needs to pay sufficient attention to the change process, and must be seen to take personal accountability for the outcome. The involvement of employees and stakeholders may also need to be expanded.

There are several ways of evaluating and improving processes; whichever of these is chosen, it represents the final stage. To determine whether or not the societal goals have been reached involves measuring, investigating, comparing, developing profiles, self-evaluating, and conducting internal group discussions. Open and transparent communication towards stakeholders is important in this regard, so channels like the company website, periodic sustainability reports, and even the annual reports should be used. During the final phase, various adjustments to the

objectives and plan of action may need to be made, based on any effects of new developments linked to the company and its activities, or to changes in stakeholder expectations.

The challenge for the current generation is to continue developing the economy while also ensuring a fair distribution of wealth and the protection of the environment in such a way as to preserve the planet for future generations. As such, it is vital that the development of plans for sustainable business is carried out by multinationals and companies in the industrial sectors that have a big impact on people and the environment. These companies can then set a good example for the SMEs and companies in non-industrial sectors. Sustainable and innovative companies who are seen as industry leaders due to their size and clout can show just how much more exceptional, how much better, and how much faster their businesses can be.

Businesses may choose corporate sustainability for a number of reasons, whether for purely intrinsic reasons such as a feeling that 'this is the way it should be done', or for strategic or economic motives which may regard CSR as an interesting business model. Sometimes, companies feel compelled to adopt socially responsible procedures: for example, because of pressure from NGOs or impending legislation. It is not uncommon to be driven by a blend of different motives.

Once an enterprise has determined its operational starting point, it is wise to distinguish between image on the one hand and societal position on the other. A company's societal position is a combination of image (how a company wants to be seen) and identity (what a company really is). Company image is a vulnerable thing, and a damaged reputation can be difficult to repair. As such, it is important that a company carefully considers the position it wants to occupy in society. There are only very few enterprises that pay no attention to the needs of society at all. In reality, most companies consider both their economic interests and the interests of society.

Chapter 5 addresses Corporate Social Responsibility in greater detail.

Summary

- ▶ An organisation is affected by its business environment, which is comprised of parties and external factors.
- ▶ Parties influence and are influenced by organisations, and include:
 - customers/clients;
 - suppliers;
 - competitors;
 - capital providers/financers;
 - employees;
 - special interest groups;
 - government and local authority institutions;
 - media.
- ▶ For organisations, external factors are less easy to influence, and can present both restrictions and opportunities. External factors include:
 - environmental factors;
 - technological factors;
 - demographic factors;
 - economic factors;
 - political factors;
 - societal factors
- ▶ Environmental factors: political choices and changes in societal consensus with regard to the issue of the environment have a major influence on organisational behaviours. The 2015 Climate Accords proposed limiting global temperature increase by no more than two degrees Celsius compared to the pre-industrial age.
- ▶ Technological factors: technological developments allow organisations to switch to new production methods and/or new products, enabling them to establish an advantage over their competitors.
- ▶ Demographic factors: changes in the size, composition, and growth of the Dutch population are demographic factors which organisations will need to take strongly into account.
- ▶ Economic factors: economic developments determine the success of organisations to an important extent. A key economic indicator is the development in national income, which has a strong influence on spending patterns.
- ▶ Political factors: governments continue to offer direction to economic affairs through their political function. Increasingly, the seat of political power is shifting to elsewhere across national borders. Within the European Union, most issues of the European internal market will come to rely on mutual policy and decision-making.
- ▶ Societal factors: organisations are increasingly taking societal demands into account. They are continuing to shift their focus towards sustainable business (corporate social responsibility). Companies consciously and structurally define their social responsibility in a way that transcends legal obligation alone. This leads to added value for both society and companies alike.